

## **BUSINESS CULTURE IN CHINA: 10 ELEMENTS**

by Olegario Llamazares\*

If the Shanghai *Skyline*, the disappearance of bicycles in the big cities or the success of luxury brands can make us believe that China has been transformed into the most important capitalist market in the world, reality is that, from a cultural viewpoint, there exist some values proceeding from a millennial culture, with strong rural roots, which mark deep differences between the way Chinese executives and their counterparts of the capitalist world act. When a western executive visits China to negotiate (whether it be to buy/sell or for distribution, production or joint venture agreements) he or she must be very aware of the differences in Chinese business culture if he or she wants to be successful in negotiating by establishing stable and profitable relationships with their Chinese clients, suppliers, or associates. In this article there are 10 cultural elements described –elements that determine, to a great degree, the behavior of Chinese executives during their negotiations with foreign companies. The analysis is performed in the order in which the elements will appear during the negotiation, in such a way that the western executive can incorporate them into his negotiation strategy.

### **Guanxi (Personal Contacts)**

The most important trait that Chinese executives have is not their education or experience, but the network of personal contacts (*Guanxi*). One may refer to this as their “social capital” as it is used for professional advancement. This network consists of family, college or university acquaintances, co-workers, etc. *Guanxi* functions as the basis to the principle of reciprocity, something the Chinese refer to as *hui bao*. When a person does another person a favor, it is expected that the favor be returned. It does not have to be immediately, but at some point in that personal relationship, the favor must be returned. It is almost as if Chinese executives maintain an accounting record of the favors they have done, and received, from every member of their personal contact network. If someone does not return the favors they have received, he or she is known as *wang'en fuyi* (“he who forgets favors and is not loyal”) and there remains a negative stigma on said person for future business.

### **Zhongjian Ren (The Intermediary)**

Due to their history of numerous invasions, the Chinese are very untrusting and suspicious of anyone who comes from the outside. On the other hand, they have a certain sense of superiority –one must not forget that they labeled themselves “the central empire” – now more so for their enormous economic and political power. This double component of mistrust and superiority makes it almost mandatory for foreign companies to use an Intermediary (*Zhongjian*) in order to negotiate with Chinese businesses.

The election of a good Intermediary –whether he be Chinese and with good connections (in the business field) or an occidental who has been established in China for years and has a good *Guanxi* –is decisive in order to be successful. The functions of the Intermediary are various: to establish the first contact and organize meetings; to initiate business conversation; to interpret the responses and gestures of the Chinese businessman; to resolve the differences that may arise and to constantly follow up agreements that are reached.

### **Shehui Dengji (Hierarchy)**

Derived from the Confucian philosophy, respect and obedience to one's superiors are essential values in Chinese culture. This cultural element has three implications in negotiations with Chinese companies: first of all, foreign companies must send representatives to China that are of an appropriate rank for the task they wish to achieve. Also, during the negotiations one must show a deference in treatment, acknowledging the hierarchical positioning of the principal executives of the Chinese company. Finally, one must always be aware that during negotiations the executives with the highest ranks never show their opposition, nor do they enter into discussion on important topics. The role of "hard" negotiator is done by second level executives.

### **Renji Hexie (Harmony in Relations)**

Agreements are achieved only if personal relationships based on respect, friendship, and positive feelings are developed. It takes time to build these relationships and in order to do this one must travel various times to the country and engage in numerous meetings. It helps a lot to have lunch and dinner meetings during which conversation on any topic but business takes place. What matters is to establish a relationship of trust, without which it is unthinkable to make business deals.

### **Zhengti Guannian (Global Reasoning)**

Due to the fact that the Chinese language is composed of signs (ideograms) which mean words or concepts, and are not in alphabetical sequence as in western languages, the Chinese have a global focus within their business topics and do not negotiate step by step in a sequential way. The Chinese discuss all topics (price, quantity, delivery conditions, etc.) in a way that the agreement that is reached must be global, not topic by topic. This mode of acting delays negotiations as there cannot be a step by step progression as is customary in western culture.

### **Jiejian (Saving)**

The difficult way of life that the Chinese have had to deal with has accustomed them to being very focused on saving in order to assure a living in their old age –in China there is no public health or pension system-. Among the larger countries, China has one of the highest savings rates, with over 50% of GDP. In order to create such a rate they resort,

both in their professional and personal lives, to extreme negotiation tactics. They use aggressive bargaining tactics, often hitting extremely low prices, much lower than they are realistically willing to accept, simply as a tactic to weaken their counterpart.

### **Mianzi (Reputation or “losing face”)**

An essential element of Chinese business culture is the *Mianzi* or “reputation” which the Chinese have within their personal relationships (*Guanxi*), also known as “losing face.” Actions that can result in “losing face” for a Chinese negotiator are: interrupting while he is talking or directly challenging him or pointing out an error of his. If during negotiations someone is made to lose face before his peers, this person will react very negatively and it will be very difficult to reach an agreement, as decisions are reached as a group. As a counter position to the concept of “losing face” there is also “giving face” (*Gei Mianzi*) which is achieved, for example, by paying compliments or praising their work in front of a superior. This is recommended as it improves their reputation and will make them take a more favorable attitude in reaching an agreement.

### **Chiku Nailao (Resistance in their work)**

The Chinese are great negotiators and in their culture their resistance and capacity for hard work is valued more than talent or creativity. This resistance is reflected in various ways during their negotiations. First of all, they work hard on the preparation, analyzing every topic that is going to be negotiated. They prefer long sessions during which both sides exchange many questions, often repetitive ones. They are very patient during the negotiation and delay taking the final decision as much as possible as a pressure strategy. Finally, they never lose their calm as this is considered a sign of weakness.

### **Lunlixue (Ethics)**

In this analysis of the main elements of the Chinese business culture it is necessary to mention ethics. In western countries there is often a preconceived notion that Chinese companies do not behave in an ethical manner, at least not within the standards known as *fair play*. A good example is the habitual practice of changing and renegotiating the conditions of a contract that has already been signed. In order to understand the concept of ethics in China one must look at the Confucian philosophy which says: “morality is based on the circumstances of the moment and not on universal principles.” This declaration opens the door to continuous changes to the conditions already agreed on, which is considered bad practice –to the point of being a matter of judicial proceedings – in western culture, while in China it is perfectly assumable.

China has become the main world market and possibly the most competitive. The rules of its business culture are heavily influenced by millenary tradition, of strong agrarian roots and philosophies based in Taoism and Confucianism. These vary greatly from the Judeo-Christians values of our culture. Foreign executives who wish to adapt to the business culture in China must, first of all, choose a good Intermediary (*Zhongjian Ren*) who will allow them to benefit from a broad Contacts Network (*Guanxi*). During

negotiations they must take into account the cultural elements such as Reputation (*Mianzi*), Hierarchy (*Shehui Dengji*) or the Harmony of Relations (*Renji Hexie*) without which they cannot create a climate of trust and friendship –one that is crucial in order to create successful and lasting relations-

To obtain further information about Negotiation and Business Etiquette in China click [here](#).

\* Managing Director of Global Marketing Strategies and author of the bestseller *How to negotiate successfully in 50 countries*.



**Complete information for doing business in China can be found in the [China Business Culture & Etiquette Guide](#).**

# NEGOTIATION AND ETIQUETTE GUIDES IN 70 COUNTRIES



*Negotiation and Etiquette in Brazil*



*Negotiation and Etiquette in China*



*Negotiation and Etiquette in Russia*



*Negotiation and Etiquette in Australia*

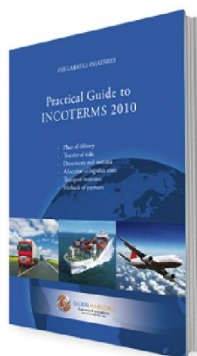


*Negotiation and Etiquette in Germany*

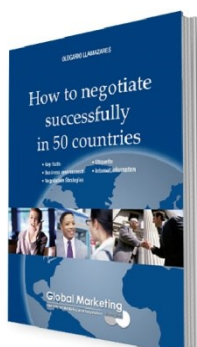


*Negotiation and Etiquette in Japan*

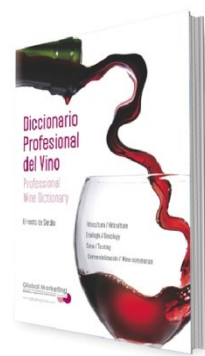
## BOOKS & EBOOKS



*Practical Guide to Incoterms 2010*



*How to negotiate in 50 countries*



*Professional Wine Dictionary*