Working with the Chinese—Now and Forever

Ming-Jer Chen
Darden Graduate School of Business
University of Virginia

Chinese University of Hong Kong
Imperial College of Science, Technology, and Medicine, U.K.

Second Annual U.S.-China Trade Conference
United States of America-China Chamber of Commerce
Chicago, October 25, 2001

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Anticipating China’s WTO Entry

A truly global economy will emerge. But are we prepared? We must consider the broad implications of this emergence. China’s entry demands that we reconsider Chinese business today, as well as what is required for sustained global partnership.

• Vastly Increased Playing Field
Ample business opportunities will open up for Western companies and investors in China. Chinese communities in Greater China and worldwide will be more economically integrated than before. China-based MNCs will quickly begin to appear on the global scene.

• Closer and Wider Business Contacts
China will be the only battlefield worldwide where all major players of different national origins compete. For the first time, many Western companies will be in close contact with companies that operate under different mindsets.

• Opportunities vs. Crisis
Unless we develop a deeper understanding of Chinese business, increased interactions will lead only to greater tension and heightened mistrust. It is time to take a “global” perspective of doing business with the Chinese.
Reflections

"The global axis of influence has shifted from West to East...It’s no longer just what America and Europe can do. It’s what America, Europe and Asia can do to reshape the world."

John Naisbitt (Megatrends Asia, 1996)

"If you look down the road 25 years, then maybe we will have our corporate headquarters in Shanghai and an office in New York."

Maurice "Hank" Greenberg, chairman and CEO of AIG (1998)

"When you go into a marketplace like China… [it’s] not about taking American culture and pushing it around the world. It’s really about trying to take the ethnic diversity we have in the world and give it expression."

Gerald Levin, chairman and CEO, Time Warner (1999)

Inside Chinese Business Today

We need to take a more holistic view of Chinese business—both its scope and composition as well as its historical and cultural roots—to understand its unique business fundamentals.

- Global Chinese Business
  Seventy percent of “foreign” direct investment in China comes from non-mainland Chinese communities. Chinese business—that of China and the overseas Chinese, is considered to be the fourth largest economic force in the world. Despite its evolving nature and the differences among Chinese communities, there is a shared cultural heritage—and business is the common language across these groups.

- East-West Differences
  While Westerners see business as driven primarily by economic concerns and financial profits, the Chinese take a far more expansive view, considering business to be a socio-economic organization. While Western business culture is transaction-based, that of the Chinese is relationship-based. The centrality of relationships is reflected in Chinese communication, negotiation and business strategy.
Reflections

- There are many penetration points into China. The shortest route from Denver to Shanghai may actually be through Vancouver or Hong Kong. The quickest route from Paris to Malaysia could be through the connections established in mainland China.

- Ren zhe ren ye (人者仁也): “The meaning of person (人) is ren (仁).”
  The character ren means humanity, as well as core, or seed of a fruit. The character ren is composed of the characters for “two” (二) and “person” (人). This etymology suggests that in the Chinese context, no person exists except in relationship to another. (Inside Chinese Business, p. 45)

- "If I were to spend $200 million (US) to acquire a company or make a business investment, I wouldn’t have to get approval from my father. But if I wanted to sue someone, however insignificant they may seem, I would have to check with him first." (Inside Chinese Business, p. 91-92)

- “The single most important factor for success in the pharmaceutical industry in China is creating and maintaining good relations with railroad station managers.” (Personal conversation)

An Often Overlooked Reality

For the Chinese, business has always been linked to family. But in the Chinese context, family concerns drive business decisions – and not the other way around. What the Chinese have are not so much “family businesses” as “business families.” Understanding this reality is critical, given the significant role overseas Chinese play in China, and the emergence of homegrown Chinese entrepreneurs.

- Overseas Chinese
  A majority of overseas Chinese businesses, public as well as private, are owned by families. Some 40 percent of Hong Kong’s stock market capitalization in 1999 was controlled by 15 family groups. Not including government enterprises, 16 of the top 20 companies in Taiwan in 1999 were family owned and controlled. A similar trend is evident in other Southeast Asian countries.

- Mainland Chinese
  Family businesses are playing increasingly important roles in China. In 2000, four leading PRC township enterprises announced their plans to pass on their businesses to their sons. A majority of private businesses are family held.
Reflections

• The very first Western-style diploma conferred on a college graduate in China contains not only the name of the graduate – but also the names of his father, grandfather, and great-grandfather. (*Inside Chinese Business*, p. 19)

• "... global outfits of the future will be the Chinese clan... The Chinese are likely to make the family into a modern corporation."
  Peter Drucker (1997)

• When attempting to understand decision-making within a Chinese business, a family tree may be more informative than an organizational chart. You may need to figure out “the story behind the story.”

• Look beyond the annual report. Most Chinese companies are not valued by the same measures as their Western counterparts. Intangible assets may not be easily evident.

• Remember that "family" means something different in every culture; pay attention to cultural idiosyncrasies.

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Partnering with the Chinese

It’s important that you consider your joint venture a “joint” (relationship) before you consider it a “venture” (business). The term "middle kingdom" for China refers to the principle of being "in the middle" – not geographically, but philosophically. In essence, Chinese culture is about self/other integration.

• Developing a Partnership
  First, know your own company (“self”) – in terms of goals, commitment, and management’s expectations. Then, know and respect your partner (“other”). To do so, try to truly “unself” yourself. Look for balance between you and your partner (“integration”). Minimize direct confrontation and use compromise effectively. The process of interaction is more important than the content of the written document.

• Maintaining a Partnership
  Equity ownership and actual corporate control often do not correspond. Expect the unexpected, and be willing to discuss and resolve problems whenever they occur. Adversity is often a test of the durability of relationships. Each stage will present different hurdles and require different types of managers. Given China’s vast regional differences, it is important to recruit “local” talents. It all depends on people, people, people.
Reflections

• In the Chinese context, translating equity control into operational control can be particularly challenging. According to John Mack, CEO of Morgan Stanley, the company's 35 percent equity ownership in its Shanghai joint venture "might as well be one percent" in terms of real influence. *(Inside Chinese Business, p. 143)*

• Think beyond the short term. Avoid the "car buyer mentality," where the goal of negotiation is to get the best possible deal for now, given that the car can be sold or replaced in a few years. Instead, think in terms of "investing" in a relationship.

• Conventional NPV or utility analysis could be severely limited in relationship-based society. Be willing to take a "leap of faith."

• An annual "cameo" appearance by a senior executive who has otherwise been uninvolved in the relationship is not the way to do business with the Chinese.

• Use nonbusiness opportunities to enhance intercultural ties. To give your Chinese an appreciation of the American cowboy and frontier spirit, take them to Texas!

Conclusion: Roots of Enduring Global Partnership

The vast opportunities for working with the Chinese open the door for a rethinking of the very way enterprises will function and interact in the 21st century. As it re-emerges as an economic power, China—and Chinese business communities worldwide—will not only learn from but will influence and contribute to Western business practices.

• Working with the Chinese
Working with the Chinese is no different from working with companies in other countries. In order to fully appreciate another culture, we must first know our own culture. The deeper our awareness of our own culture—both corporate and national—the better we will be able to appreciate other cultures.

• Sustained Global Partnership
East-West balance and sustained global partnership can only be accomplished by the continuous process of self/other integration. Dominant Western paradigms ("self") can be enriched by indigenous ("other") thoughts and practices.

• Opportunities for a New Enterprise System
We have a golden opportunity to develop a global enterprise system that incorporates cultural and institutional differences worldwide. This "generic enterprise operating system" would provide a common language and adapt easily to different economies (capitalist and socialist alike). Such a global initiative would maximize business opportunities and advance business practices around the world.
Reflections

• As is evident from the well-known term "wei-ji," or "crisis," which is a combination of "threat" and "opportunities," the notion of interdependent opposites is embedded in the Chinese language. "Many" and "few" combine to mean "how much"; "conflict" can be expressed by joining the characters for "spear and shield"; the characters "inside" and "outside" together mean "everywhere."

• Thinking in terms of "both/and," rather than "either/or," is a critical step toward developing a globally-integrative mindset.

A Turning Point for Global Enterprise Integration

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"I think that China and its impact on developed economies--and how developed economies and their politicians react to it--is going to be a huge story."

(Jack Welch, legendary (former) CEO of General Electric, when asked what the next big story will be for CEOs; from "Jack: The Exit Interview" Fortune, September 17, 2001)