Business Success In China

- dodging the culture clash trap

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Business Success in China –Dodging the Culture Clash Trap

For excellent reasons, American companies are moving quickly to establish their business presence in China. China's growth rate in the next few years should far outstrip that of the US. China's National Bureau of Statistics estimates that the economy will grow at an 8 to 9% rate over the next five to 10 years, on track to quadruple its GDP from 2000 to 2020. The US Federal Reserve, in contrast, recently cut its estimate of US economic growth in 2008 to a modest 1.8 to 2.5%, and talk of a US recession is widespread.

Establishing a strong local presence by acquiring a Chinese company is rightly seen as the fast track to exploiting China's potential. A successful local company added to the expertise and power of a US firm is potentially a winning combination. Significant cost reductions can be achieved, sales to Chinese customers can grow exponentially, and export sales from the Chinese subsidiary can be used to attack other large fast-growing economies like India, Indonesia and Brazil.

The overarching challenge to be overcome is the major difference in *culture* between China and the US. The inability to integrate the cultures has caused many acquisitions to fail to live up to initial expectations. Others have even gone down in flames.

What are the business implications of these differences in culture? For one thing, a strong emphasis on family trumps the western distaste for nepotism. Routinely a Chinese businessman will hire relatives over possibly more qualified personnel. Also, purchasing agents may buy from families, relatives and friends rather than following the American practice of getting the best value or price. But the strong influence of family goes beyond this. The story is told of an elderly Chinese woman, living alone on limited means, who spent several thousand dollars on luxury pots and pans, even though she rarely cooks. Why would she do this? Because a near relative had signed up for a multilevel marketing scheme and needed a sale. Family is supported in this way even at some economic pain. In a larger business context, the same thing can happen. A salesman may invariably take customers to his cousin's restaurant even though it may not be economical or a suitable place for the business at hand. Orders may be obtained as a family favor with no hope of repeat business. Since a salesman's performance so strongly depends on relationships, when a given salesman's relationships have been exploited, the probability of increased sales the following year can be very limited.

Obedience means that all decisions must come from the top. Empowerment of middle managers is difficult. While unquestioning obedience may seem to simplify managing a Chinese subsidiary from the US, the inability to move without direction from the home office will, given the distance, prove to be a major impediment to growth. US management teaching has been based on decentralization and employee empowerment for the last 15-20 years. Such practices, if implemented in China without change or guidance, are doomed to fail because of the obedience factor.

The desire of team members to respect higher-ups translates into an inability to disagree on anything, or even just to point out potential problems. A small issue can well become a crisis before the US parent even knows about it. Thus selection of local leadership for the Chinese organization is crucial, and it will be difficult for Americans to assess the leadership potential of a given candidate, since only positive input will be offered. Experience with the nuances of Chinese communication -- and this goes far beyond speaking the Chinese language -- is essential to selecting and growing local leadership successfully.

Superstition plays a small but significant part in day-to-day operations. The preference for certain numbers may impact pricing for instance. Americans may have heard of “feng shui”, but often don't accept that the placement of furniture and objects in an office or factory can have a serious impact on productivity. More importantly, while China is now using the Gregorian calendar for commerce, most Chinese still use the traditional lunar calendar to pick auspicious dates for weddings, haircuts, and business events. Yet insensitivity to this aspect of the culture can lead to painful mistakes. If the Chinese subsidiary sets a date for a factory opening and an invited American executive postpones it for his convenience, this can be perceived as a lack of respect for Chinese ways. This insensitivity will brand the executive as clearly a “foreigner” and not part of the family, a status much more revered in the business context.

The business impact of a largely different set of ethical values is easy to imagine, but difficult to translate into effective management practices. Negotiations are profoundly affected, as are HR, finance, and purchasing practices and policies. People tend to put loyalty to family, friends and close business associates ahead of the abstract entity called “corporation”. As a result, some behavior and business practices can be construed as unethical or conflicts of interest by Americans, even though they are accepted as normal in China. These demand careful attention from those who know and understand both systems of fair treatment.

Chinese history goes back almost five thousand years and its culture is still based in large measure on the teachings of Confucius (551 BC – 419 BC). Several governments—the Qin Dynasty (221 BC – 226 BC), the Qing Dynasty (1644 AD -1911 AD), and most recently the People's Republic of China (1949 – present)—have used force to try to change the culture. Even at the threat of exile or the penalty of death, Confucian teaching prevails. It is crucial for US companies to recognize the cultural differences, and find ways to adapt and accommodate them. This culture has persisted for more than five thousand years and the long held values don't change easily or overnight.

In summary, there are serious issues for an acquiring American company to be concerned about. From the beginning, the acquired company must be made to operate in a way that is not in conflict with US law. Yet, wholesale change of established practices -- dealings with customers, suppliers, and competitors as well as the hiring of employees and setting conflict-of-interest guidelines-- can seriously affect the ability of the subsidiary to deliver financial results, a position few acquiring companies can afford. There is a strong aversion to nepotism in the US because of the risks of collusion, embezzlement, and just downright inefficient utilization of resources. These risks are real in China due to the cultural bias of preference towards family. These issues will have direct impact on financial performance. It is imperative for the American entity to plan for and structure the integration well; balancing these important priorities so that the financial results and growth projections can be maintained.

China is the fastest growing economy in the world. Its expansion is poised to continue for years to come due both to its endless supply of low cost labor and the insatiable demand for infrastructure, as well as the desire for manufactured goods and luxury items from its newly created middle class. Investment money will continue to pour into China at unprecedented rates because that is the right thing to do. American companies can shelter themselves from the acquisition and integration risks, by tapping the expertise of people who have Chinese *and* American background as well as executive profit and loss experience in both countries. Such experts can transcend the language and cultural barriers. Finding this expertise may be a tall order to fill, but the price is not only worth it but imperative for success. Without proper guidance and leadership to preserve the basic operating fabric while complying with accepted US practices, the acquisition is doomed from the beginning.

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