

The road to China: ten key lessons on doing business in China

Part 1

As a result of the tremendous economic growth and liberalization of the past thirty years, China has become an attractive market for Northamptonshire companies who want to travel the road to China. These arrangements have run the spectrum from complex joint ventures, investments and acquisitions to a variety of reseller, outsourcing and manufacturing arrangements.

Unfortunately, the road to China has often been characterized by friction, failure and the loss of investment. In short, it has been treacherous and fraught with economic peril. Many lessons on doing business in China have been learned, but most of them have been learned the hard way. Moreover, the majority of recent entrants into China have relearned those same lessons and suffered similar frustrations and financial losses as those who came before them.

1. Don't Leave Common Sense at the Border.

Many of the same practices that work in the U.K and elsewhere also work in China. Fundamental business practices such as setting clear objectives and methods to measure success, thinking through the rationale for pursuing such objectives, establishing a tactical plan to achieve the objectives, finding the right people with whom to work, understanding the market and competition, and being prepared, work throughout the world.

2. Develop personal relationships

In every country, personal relationships are important for conducting business. However, because of China's long, tumultuous history, the country has a system of organized dependency. It is personal relationships that open opportunities and get things done. With many layers of bureaucracy and personal interests to deal with, China is not a place where individuals function alone. As a result, the whole pattern of business relationships in China is different than in the West.

Although the Chinese are generally polite, suspicion and distrust characterize all meetings with strangers. As a result, trust is very difficult to earn, especially for outsiders. Yet almost no business relationship can be formed without it.

Northamptonshire companies and others struggle with this dilemma that personal relationships are critical to business success in China, but are difficult to establish.

In cultivating relationships with business, government and social leaders in China, there is no substitute for humility. A Brit coming to China to "show the locals how to do business" is bound to fail. Take your time.

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3. Understand the Role Government Plays in Day-to-Day Business.

The role the “government” plays in China is much different than the role it plays in the U.K. In China, the national, provincial or local government agencies and their respective officials are involved in almost every aspect of business. The licence and permit requirements are numerous and complex.

As a result, Northamptonshire companies should develop a strategy for dealing with key government constituencies. The foundation of this strategy is meeting and cultivating relationships with government officials at all levels. This group requires a lot of time and attention. The first step is for the company to bring something of value to China such as job opportunities, technology or investment. Government agencies will more likely take interest in the foreign entity if your company is bringing something of value to their country.

The benefits of developing these relationships will increase your chance of success. You should make it a priority to develop a relationship with the State Administration for Industry and Commerce (“SAIC”) representatives who can be very helpful in combating intellectual property infringements. You should identify the people with influence within the SAIC. Although it may take weeks or months to schedule a brief visit, you should be persistent in developing trust and personal contact.

4. Learn to Thrive in the Local Business Environment.

In order to understand the local business environment, you must learn the local and regional political and business dynamics. In addition to developing relationships with the appropriate government officials, you must also meet and get to know the local business leaders. These individuals have significant influence in their respective business communities. Developing these relationships is not an easy task. Much time, patience and perseverance is required.

In addition, you must learn the local business etiquette and norms. The correct protocol can actually be learned from the Chinese themselves. Humility is a powerful tool in China. Accordingly, you must be open to learning from the local Chinese.

5. Know The Market and Your Customers.

Related to the need to learn the business environment, is the requirement that you must know the market you are entering. A basic knowledge of the competitive landscape is critical. The identities of your competitors, their strengths, weaknesses and strategies must be obtained. Avoid relying solely on research reports or the advice of marketing consultants.

You should also do your own fieldwork and directly meet with people in the market. Although the Chinese economy has been rapidly growing for many years, the domestic market in China is brutally competitive.

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6. Select the Right Partners, Suppliers and Resellers.

Many UK companies have failed to exercise the patience and persistence required to select the “right” partners, suppliers and resellers. All too often, the Chinese idiom “same bed, different dreams” describes the difficulties shared between the U.K. company and its partners in China. You must work hard to understand the objectives and motivations of any party with whom you plan to do business. This is not an easy task in China. Brits tend to be straightforward and open. The Chinese are not. Learning and understanding the objectives and motivations of such parties is part of the relationship-building process. You must be patient and persistent.

A thorough due diligence is required in choosing partners, suppliers and resellers with whom to work in China.

7. Internalize Chinese Cultural Values and Ways of Thinking.

It is no surprise that the Chinese have a different value system than Brits. That value system dramatically affects how the Chinese think and filter information. In order to develop beneficial relationships and to avoid problems and misunderstandings, an understanding of Chinese values is highly recommended. The difference between the Chinese and Brits value systems is dramatic. For example, Brits place great value on the individual. The Chinese place high value on the group or collective. The concerns of one individual are of little importance. Brits tend to be more egalitarian, emphasizing equality under the law and equality in relationships. Relationships among business people in the U.K. tend to be on a “first name” basis. The Chinese place great value in the status of a person and strict hierarchical relationships. Even relationships among family members are not always on a “first name” basis.

Brits tend to be information-oriented; the Chinese are relationship-oriented. Brits usually break problems and issues down into pieces while the Chinese tend to look at problems and issues as a whole. We Brits view ourselves as problem-solvers who are constantly seeking the right answer or solution. For the Chinese, the process of building the relationship is more important than solving the perceived problem. In China that process often involves exercising the correct amount of deference due to someone with a particular status. Finally, Brits usually take a “reason-based approach” to confronting problems or negotiations. The Chinese love to haggle.

Furthermore, in order to tap into the Chinese way of thinking, knowledge of the national language is a must.

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8. Appreciate the Chinese Negotiation Style.

Rarely will the Chinese offer a fair deal. It is up to the Northamptonshire company to ensure that the deal is structured fairly and results in a win-win arrangement. A comparison of fundamental U.K.-Chinese negotiation approaches is the easiest way to understand the Chinese style. We Brits seem to be inherently restless and like short meetings. The Chinese require a long courting process characterized by lengthy meetings, banquets and social events. The Chinese are ready to take advantage of a your over-eagerness or impatience to get a deal done. Accordingly, you must quickly demonstrate that you will not be taken for a fool.

Once this is established, the second set of negotiations will be much easier. Brits, as a result of our historical development and egalitarian nature, are often informal. The Chinese, in their respect for hierarchy and status, are often formal. Brits are willing to make cold calls. The Chinese are not comfortable with this approach. The British negotiator tends to have substantial authority. The Chinese negotiator usually has limited authority. Top-level Chinese executives rarely bargain. It is not their role.

Brits are direct and usually do not hesitate to discuss their interests and what they desire to achieve. The Chinese are the opposite. The Chinese approach is very indirect and cautious. UK negotiators need to be very patient. We must also be attentive, looking for subtle clues and hints. Determining the Chinese interests and agenda can be likened to the process of putting a puzzle together. Similarly, the Chinese will often use misdirection or make outrageous demands just to see if you will agree, in your desire to get its foot in the door. In reality, the Chinese are using this tactic to test your resolve.

Also, Brits feel more comfortable working on a proposal such as a draft memorandum of understanding or heads of terms. The Chinese prefer substantial dialogue. Often when Brits submit a proposal, the Chinese will ignore it or “study the proposal”. Brits, in our “reason-based” approach, tend to argue the “pros” and “cons” aggressively. The Chinese use questions to elicit information and learn about the other party. Brits tend to seek to resolve each issue in a sequential fashion. The Chinese, on the other hand, jump from issue to issue and back again. In negotiating with the Chinese, you must also be prepared to discuss all issues simultaneously and in a haphazard order. Nothing is settled until everything is settled.

Brits tend to have little patience; whereas “endurance” is an important part of the Chinese culture. You should always be on guard for statements such as “trust me, this is how we do things in China.” This type of statement is a standard negotiation tactic.

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9. Understand the Role of Contracts in Business Relationships.

The role of contracts is one of the big differences between Chinese and Northamptonshire business cultures. In the U.K., contracts are a key component of any business relationship. Contracts memorialize the intent of the parties and serve as a tool to ensure that there is a meeting of the minds between the parties. As a result, contracts tend to be very detailed, long and provide solutions to almost every conceivable contingency.

The execution of a binding contract tends to be a major milestone for Brits. The Chinese, on the other hand, are much more interested in the relationship than the contract. They often focus on the spirit of the agreement and not the actual language. Trust and harmony are more important to the Chinese than any piece of paper.

As a result, for the Chinese, the negotiations often begin after the contract is signed. In addition, the “negotiations” may never end. This common practice has led to a tremendous amount of frustration for U.K. companies.

The Chinese response to lengthy U.K. contracts often take two dissimilar paths. The Chinese may review it, submit modest comments and sign it. They do not take this approach because they agree with the provisions of the contract. **They take this approach because the**

negotiations have not yet begun. Alternatively, in their love to “haggle,” they may aggressively negotiate each provision. In such case, the Chinese company may or may not care about the particular provision being negotiated but instead is establishing its power, saving face, adhering to the long process of developing the relationship or just testing the Brits.

However, a common tactic used by the Chinese is to insist that the U.K. company’s obligations are very detailed, to ensure that the Chinese can get what they want from the agreement, while leaving their own obligations vague and broad. This lack of mutuality in obligations does not trouble the Chinese. This approach gives them room to manoeuvre, claim a different interpretation and otherwise avoid performance. Notwithstanding the Chinese attempts to keep contractual provisions vague, the best practice is to clearly set forth in the contract anything that is important enough to affect your bottom-line objectives.

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10. Develop a Comprehensive “China Strategy.”

The key step for a Northamptonshire company is to thoroughly understand why you want to do business in China. A clearly defined goal needs to be developed followed by a realistic and detailed plan for implementing it. Yet the plan must be also be flexible permitting you to adapt to the constantly changing market conditions. The road to China can be difficult. The conventional wisdom is that “in China nothing is impossible, but everything is hard.” Tremendous patience and perseverance are required.

Worth consideration in your strategy, is that China is not a homogenous market. There are significant cultural, language, legal and business differences from region to region within China.

A key element of the strategic plan for China must be the recruitment of strong local leadership in China to execute the plan. Your managers in China should have access to the company’s top leadership in the U.K. The best practice is to initially select a great local team and keep it intact from the initial planning stages through the start-up of operations and growth phase. Given the importance of relationships in China and the benefits derived from the relationships with governmental and business leaders, having a senior leader who knows the history of the company and the relationships developed in China will help tremendously.

Conclusion

China’s evolution to a market economy has been breathtaking. Although tremendous opportunity exists, Northamptonshire companies must be open to continuous learning and adaptability in order to manage the complex environment and the rapid pace of change. We must appreciate the challenges waiting for us on the “road to China” and navigate the potholes, traps and other obstacles encountered along the way.

Success in China can be especially difficult; it is a place where U.K. managers face exceptional language and culture differences and a constantly changing environment.

In any competitive market, turning dreams into reality is challenging. China’s complexities double that challenge. However, exercising patience and perseverance, you can achieve success in China.

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