CHINA
Cultural Insights for Business Success

rain8

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INTRODUCTION

Introduction

Many companies are of course doing business in China or are contemplating doing so. But how many are approaching the challenge in the optimal manner? How many companies have businesses in China that perform on par with their Western markets? How many new entrants will enter the market well-armed and knowledgeable of the challenges and approaches that will succeed?

On the other hand, how many are still seeking to apply their techniques proven through years of application in Western markets? How many think that their global segment or market leadership, their technology or other competencies will translate into success on the ground in China?

Ask yourself, "How is my company performing in the region relative to my other regions in terms of..."

- Market-share
- Profitability
- Revenue from new products
- Innovation
- Quality
- Retention of staff
- Development of new best-practices

If you are at all like most companies we talk to and work with, your China numbers are lagging the performance of your Western regions.

In our experience this is almost always

NOT related to structural factors or other nearly immovable barriers but to basic misunderstanding of cultural factors that limit business development as well as create, in many cases dramatic, under-performance in terms of a variety of internal measures.

To be sure, strategy is critically important – getting strategy right builds the foundation for success. But after strategy comes execution. At Rain8 we spend a LOT of time on strategy, but this series will focus on the fundamentals of execution that is in fact the area in which we see so many companies falling down relative to doing business in China.

Dr. Stephen Covey referred to a situation in which one finds oneself pointing fingers at others in response to a problem or failure. He advised us that before pointing fingers we should stop and examine the fact that three other of our own fingers will be pointing back toward ourselves. Let's examine what those three fingers may be hinting at relative to the subject of success in China.

What Worked in the Past

One, we may be assuming that what has worked so well for us in the past will surely work as well in China.

Overconfidence

Two, we may be approaching the situation with an overabundance of confidence. Relative to corporate executives, success tends to breed success. Successful executives are often offered new opportunity to incrementally grow and expand skills and capabilities. Strong and supportive management teams with a wealth of experience that they may turn to for advice or who will freely offer advice and direction also often surround them. In the case of entering such a different and challenging new market, this support may not be available as the normally supportive team may simply have little to offer in the way of experience and advice.

Culture

Three, frankly, in the West, we assume that culture is trivial, superficial and has little to do with the execution of business – in other words, "which fork to use for salad." This is because our cultural values are deeply ingrained (as cultural values are everywhere) – so deeply ingrained that we take little notice of them. Secondly, Westerners by and large descend from a relatively uniform cultural background, therefore it is of little value spending time making ourselves more acutely aware of our cultural values.

Western Methods Don't Work as Well in Confucian Cultures

The lessons from these three points are that first, what has worked so well for us in Western business environments does NOT work well at all in MANY regards in China. This means quite simply we must develop fundamentally new approaches that WILL work.

New Surroundings

Second, we must cast off overconfidence in our own abilities developed through experience in Western markets and recognize that we are operating in a fundamentally new environment and very often one in which we lack the experience and advice of our management teams. Much as a soldier finding himself surrounded and alone deep in enemy territory, we must become acutely aware of our new surroundings, reading tiny signals and accurately interpreting them to ensure our survival.

Culture Matters

Third, culture matters. Culture influences and, in fact, controls nearly ALL of people's significant behaviors and communications. Lou Gerstner, former chairman and CEO of IBM, was quoted in 2002 in Business Week as saying,

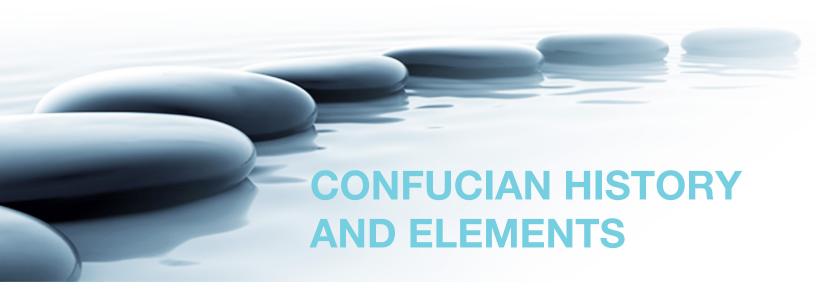*"Culture isn't part of the game – it is the game."*

Chinese culture is SIGNIFICANTLY different from Western culture. This difference is because China has been for millennia geographically isolated from the West by long overland and sea routes and for centuries by Chinese government policy.

A final note...This series will be primarily about understanding cultural differences and how to optimize both business development and internal management of operations in China in view of the profound cultural differences. The cultural root we speak of dates to around 500BC and is referred to as Confucian culture (named after the developer of this school of thought, Confucius). So rather than referring to Chinese culture, I'll refer to Confucian culture and in some cases make specific reference to "Chinese culture" or "China" where the points apply most appropriately to China. Much of the cultural heritage of Korea and Japan (and to a certain significant extent extending southward into SE Asia including, for example, Taiwan, Thailand, Vietnam, and so on) is Confucian, therefore much of what is discussed can be applied almost equally as well in these regions.

In Parts 2-4 of this series we'll explore Confucian history and elements including discussions of guanxi and mianzi. In Part 5 – I'll attempt to bring these background elements into practical application, while in Part 6, I'll discuss management staffing.

CONFUCIAN HISTORY AND ELEMENTS

Confucian History and Elements

Confucianism is a Chinese ethical and philosophical system developed from the teachings of the Chinese philosopher Confucius, who opened a school and cultivated many students based on the education method of "encouraging."

History

Confucius lived and developed his philosophy throughout 551–478 BC. In the beginning, Confucianism was primarily a basic moral standard, but over time Confucian thought has developed into a vast and complete philosophical system and represents what has come to be thought of as the Confucian School of Thought. Confucianism was the greatest mainstream philosophy in ancient China and is today the most important ideology in present-day China and most of East and Southeast Asia. Other parts of the world have also been deeply influenced by this philosophy as the philosophy migrated to some extent into the West via early missionaries returning from visits to China. Cultural norms similar to Confucianism can even be observed in Mexico and Central and South America.

Confucius created Confucianism at the end of the Spring and Autumn Period that roughly coincides with the end of a 1,700 year period of Chinese history – the Xia, Shang and Zhou Dynasties, which are the first historically identified dynasties of China. Confucius' ideology absorbed some of the traditional culture from the

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Xia, Shang and Zhou dynasties and then formed a complete system of thought including Confucius' own major contributions including thorough codification.

Living in the Spring and Autumn Period, a time when feudal states fought incessantly against each other, Confucius was convinced of his ability to restore some order and a better balance to the world. After much travelling around China to promote his ideas among rulers, he eventually became involved in teaching disciples. His school of thought, however, was not well integrated into society until the following Warring States Period, 475–221 BC.

Confucianism compares in impact to the many contributions made by Chinese ancient culture to worldwide civilisation, including The Four Great Inventions: paper-making, the compass, gunpowder and movable type. It has also deeply influenced modern civilisation through text in The Four Books (The Great Learning, The Doctrine of the Mean, The Analects of Confucius and Mencius) and The Five Classics (The Book of Songs, The Book of History, The Book of Changes, The Book of Rites and The Spring and Autumn Annals).

Confucianism in Europe

During the Ming and Qing Dynasties, the hardships endured by European mission-aries journeying through China to build bridges with the West were rewarded with Neo-Confucianism, the mainstream thought of the time that was a response by the Confucians to the rising influence of Taoists and Buddhists. Neo-Confucian thought arose in Chinese culture during the 11th century. It had a great influence in Korea and Japan and became well-known in Europe in the 17th and 18th centuries. "Confucianism with European thought" developed during the Italian Renaissance. The combination became part of the leading ideology of European modern civilization and a significant source of The Age of Enlightenment, a cultural movement led by European intellectuals during the 18th century.

Enlightenment figures seized upon Confucian philosophy. Voltaire's was the most powerful voice advocating Confucianism in Europe. He and his Encyclopaedia of School used Confucianism as an ideological weapon to oppose the theocratic monarchy. Neo-Confucianism, as the part of the basis of classical philosophy founded by German philosopher Leibniz, was also used as a powerful weapon – against the theology of the Roman religious court that wielded considerable influence over philosophy guiding everyday actions of society.

Francois Quesnay, known as the "Europe-

an Confucius," helped create a new era of modern political economy in which commercial productivity and efficiency were set within, guided and constrained by the rule of law, social customs and government influence, partly on the basis of Confucianism, by laying a theoretical foundation for the formation and development of British classical political economy in part set forth by Adam Smith in his 1776 book, The Wealth of Nations.

The Science of Success

Confucianism was and is seen by many as the "Science of Success."

There is a long and steady history of successes in China, and Confucius is regarded in China as the founder of many concepts of success. His teachings rarely rely on reasoned argument, but instead emphasize self-cultivation and emulation of moral exemplars. As a Chinese thinker, he expressed his views through mottos. Compared with ancient Greek and Roman thinkers, his philosophies are conveyed more directly and practically. Indeed practicality is a consistent thread running through much of Confucianism.

One of the deepest teachings of Confucius may have been the superiority of personal moral exemplification over explicit rules of behaviour. Confucius' concept is best expressed in his version of the Golden Rule,

"Do not do to others what you would not like yourself, then there will be no resentment against you, either in the family or in the state." Analects 12:2 (Analects is one of several books written by Confucius.)

The ideas of Confucius are considered a real treasure in China. Confucianism is a humanist system of thought that advocates harmony as fundamental to a successful life. In Confucianism, harmony is the supreme principle to deal with the relationship between nations, countries and individual human beings. For the most part (but with some very significant failings to be discussed later), Confucianism still fits well with the development of modern management in China. That's why it plays a very significant role in Chinese and other Asian business management control systems.

Confucianism and Modern Management

Contrary to expectations, an economic boom occurred after WWII in Japan and Asia's "Four Little Dragons" (Taiwan, South Korea, Hong Kong and Singapore), and then in Southeast Asia and China's south-eastern coastal areas after Deng Xiao Peng's "Opening Up" of China. But how? A significant reason may lie in cultural heritage. Asians believe that, in addition to economic policy, the profound wisdom of Confucianism management,

especially humanist ideology, was a significant factor in Asia's success.

In Confucian thought, the five virtues most often discussed are:

- Ren (benevolence or humaneness toward others)
- Yi (righteousness or justice)
- Li (propriety or etiquette)
- Zhi (knowledge)
- Xin (honesty and integrity)

In business, these five virtues can be interpreted as follows:

Ren is a basis for management thought. Kindness toward fellow man is the highest moral standard in Confucianism. Relative to management/employee relationships, management is expected to behave in much the same deeply caring way in which a kind and capable patriarch would look after the well being of an extended family.

Yi is part of management standards. It's an important moral rule that calls for people to conduct themselves with righteousness and with respect for justice.

Li is the basis for management guidelines. Li is codified and treated as a comprehensive system of norms, guiding the propriety or politeness that colours everyday life.

Zhi, the basic concept of Confucian and management strategy, stands for people's knowledge and talents. Zhi suggests that people should constantly strive for knowledge and competence. According to this concept of Confucianism, management should, wisely, recognize those individuals who diligently practice and succeed with the idea of zhi, recognizing and rewarding knowledge and skills.

Xin is at the core of management goals. A senior manager treats subordinates as an extension of his own family and friends and is always open and honest and behaving with the highest integrity.

A Special Word About Xiáo

Underlying and in many ways integrating these five principles is the principle of Xiào that refers to filial piety and respect for elders. The principle of xiào is critically important to understand for anyone seeking to live in or manage business in a Confucian society.

The principle of xiào is based on filial environments but was strongly advocated by Confucius as widely applicable to society at large. In this application one can see deep respect for elders and, by extension, those in positions of authority. Application of xiào has led to management systems that are extremely top-down, command-oriented and hierarchical. Leaders give

commands, and others follow. This approach allows for tightly organized and easy to manage teams that strictly and diligently attempt to implement plans laid out by management. Most significantly, however, independence, initiative, creativity, and freedom of expression is seen to be greatly subdued or even nonexistent.

At the core of Confucianism is the practical and humanist foundational principle that the assets on Earth are to be combined with the power of people to use those assets in a manner that is harmonious with others to the greatest possible outcome.

Mencius, one of the key interpreters of Confucianism, also proposed that, "A just cause gains great support; an unjust one gains little." In his philosophy, harmony is a basic and supreme principle to deal with relationships between people. By the same token, internal (employee relationships) and external (customers, suppliers, shareholders, governments etc.) harmony should create a favourable corporate culture and maintain strong competitiveness.

Confucius held this opinion as well. He advocated harmony as the most precious, but the master also pointed out: "The superior man is affable, but not adulatory; the mean man is adulatory, but not affable." With such a heavy focus on harmony

it is not surprising that "good relations" is one of the most dominant characteristics of corporate culture today in Asia.

One may be forgiven at this stage for wondering the practical application of the five core principles of Ren, Yi, Li, Zhi, Xin and Xiào to the modern business environment, but we'll bring these elements together in Part 5 – On the Ground that will describe examples that may be encountered and approaches to successfully manage one's business in view of these forces dominating behaviour and communications in Confucian cultures.

Confucianism: Not Without Challengers

While, with little debate, Confucianism is the dominant guiding philosophy at play in the everyday lives of people across China and Eastern Asia, she has not been without her challengers.

Daoism (also referred to as Taoism) arose about the same time as Confucianism and may be best characterized as a form of mysticism emphasizing man's need to align with nature. Daoism remains alive today although with a relative minority following.

Mohism, also founded around the same time of Confucius, was a philosophy remarkably similar to concepts set forth the

New Testament. Mohism was, however, quite shortly absorbed into Daoism texts.

Most notably was the school of Legalism which was alive and flourishing for a period of perhaps 200 years starting around two centuries after the establishment of Confucianism. Legalism emphasized on one hand the rule of law and on the other hand was extended to encourage the use of pragmatic, and at times ruthless tactics and methods. Legalism was somewhat short-lived in ancient Chinese history but did result in a period of brutal territorial wars.

The Han dynasty ultimately rejected Legalism and adopted Confucianism as the official government philosophy as did most subsequent dynasties. Confucianism therefore held sway without significant competition until the recent times of Maoist attempts to refocus the people of China around idealism, populism and nationalism with new doctrines that made only marginal inroads.

Many view Maoism as more of a political effort than a purely philosophical one – intended to galvanize political power for the Maoists. Reformists dating to the recent times of Deng Xiao Peng have steadily attempted to cast off some of the idealism and populism of Maoism in favor of more economically practical approach-

es, but once again the reformist and their efforts may be seen as more related to creating increased political influence and economic success for China within a global context than as a fundamental philosophy.

The Chinese government today, with their relatively long historic focus on peace, harmonious development and efforts to avoid separatism are in many ways continuing to follow Confucianism.

Chinese companies, however, are often viewed by many as taking partial and ill-informed lessons from their Western commercial counterparts and from Western governments to be following practices that are more akin to the ancient philosophy of Legalism – at least in their external dealings.

In summary, to be clear, Confucianism is alive and well in China and represents the single most powerful force affecting everyday life, behaviour, social interaction and conduct of business within China and much of East and South-east Asia today.

The Future of Confucianism

Confucianism has remained a dominant social force in Asian society for over two thousand years, providing a useful construct for explaining modern internal business management in China as well as day-to-day private life. Fostering a work

ethic consistent with Confucian values has been shown to be fruitful. Leadership under the Confucian tradition emphasizes a holistic concern for the welfare of employees, a concern for harmony in groups, teamwork and self-sacrifice.

In contrasting Western thought with Confucian thought, it was said to me by a friend that, "The Westerner strives to be a hero, while the Confucian strives to be a gentleman." One can easily imagine the power as well as the conflicts of both (sometimes conflicting) characterizations.

Confucianism has been criticized for limiting innovation, since its heavy emphasis on respect for authority and hierarchy and what many may view as an "overly harmonious" approach may suppress healthy dissent, independent and critical thought, and individual creativity. This criticism is certainly valid, and we'll explore ways in which to mange this limitation in Part 5 – On the Ground.

Confucianism has evolved and has been expanded by many scholars over the years and will no doubt continue to evolve. With more and more companies crossing international borders and corporate cultures, it will be interesting to see how Confucianism engages and perhaps integrates Western concepts and how Western business approaches can capture the strong forces of Confucianism. Today's era may turn out to be one of the most rapid periods of Confucian evolution.

GUANXI

Guanxi
Introduction

Guanxi, in very general terms, refers to the "personal network of relationships" between people. Most importantly in the above phrase is the word "personal." Guanxi definitely spills over very significantly into business life and benefits companies, but it is - at root – PERSONAL in nature. Guanxi is developed between people – not between corporations.

Guanxi exists all around us, but plays an important role to differing extents in different countries. In China, thousands of years ago, ancient sages (including Confucius) recognized the importance of guanxi. Guanxi may be thought of as "significant and formalized" behavior in Confucian cultures – far more so than in the West.

In China, guanxi is complex, and becomes an important constituent of business activities, including relationships between individuals, customers, governmental institutions, investors, partners, suppliers, and even employees.

Definitions of Guanxi

Guanxi can be thought of as "special relationships." Confucians think that both parties in a relationship can reach, over time, a win-win result in the interaction of guanxi. "Renqing," an important factor of guanxi, means "human emotions," "human sentiment" and "favor" and may be considered as follows in Chinese culture:

1. Renqing in Chinese means the emotions a person experiences in different circumstances. If one can understand a person's emotions, and do what he or she likes and

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avoid what he or she dislikes, favor will be gained;

2. Renqing can also be used as a resource to be presented to others. When others accept your gifts or help, they "owe you a favor." Renqing, as a social resource, includes not only money, properties and services, but also care for emotions;

3. Renqing also means the social norms by which persons in society get along with each other, and the manner in which we deal with others on a reciprocal basis to maintain guanxi between us.

In terms of business, guanxi may be understood as an informal contractual relationship.

Guanxi is often misunderstood by Westerners as "trading favors." But guanxi is in fact deeply rooted relationships characterized by unfailing loyalty and readiness (enthusiasm, indeed) to assist. It is critical to make the distinction between loyalty and favors – favors are best viewed as the representative currency of guanxi – not guanxi itself.

In China, where guanxi has been deeply rooted, business cooperation and other interactions are often guanxi-oriented based on equal benefits to be realized in either the present time or at some future time by the individuals involved.

The Wenzhou Example

We may see an example in that many Chinese enterprises are family-based enterprises, and that people naturally cooperate with friends or colleagues they know well. Many enterprises based on families, are highly influential in China's market.

The famous Chinese "Wenzhou Pattern" (Wenzhou is a city in Zhejiang near Shanghai) is the best example of cooperation based on guanxi. "Wenzhou Pattern" is used to describe the enterprises that Wenzhen families, relatives and friends jointly invest in. Wenzhouren (people from Wenzhou) are widely known in China as astute investors and people who "stick together" to help one another, deriving great intelligence, wisdom, information, and insight through their collective and cooperative efforts. Astute investors tread cautiously indeed when contemplating competition with Wenzhouren!

Importance of Guanxi and How to Form Guanxi

To form Guanxi is to gain trust in and trust from others, and is the basis for constructive interaction. For individuals, having good guanxi not only helps one learn advantages, culture and social norms from others, but also helps one to adapt to the society better.

University Studies

To emphasize the importance of guanxi in China consider the following statistics collected in a research project on guanxi conducted by a famous university in China:

- More than 85% of persons with good guanxi can succeed and feel happy;
- 85% of factors leading to success depend on guanxi while 15% originates from knowledge, technique, experience and so on;
- In 4000 employees unemployed in a region, 90% have poor guanxi, and only 10% are disqualified on technical or other skills basis;
- Graduates with good guanxi earn 15% higher salaries than excellent students, and 33% more than average students.

The fact that such a study was commissioned in the first place should be telling enough of the important role guanxi plays in Chinese society.

People in China often say that first-class persons are good at collecting guanxi; second-class persons like to accumulate properties; while the third-class ones attach great importance to saving money. Here, collecting guanxi means making a lot of friends, and when in need, having friends to help. Guanxi is value-added. Some also say that you may know your value by averaging the revenue of three of your good friends, from which we can see that guanxi has similar effect to money.

Guanxi focuses on the interpersonal relationship network formed during social interaction, such as the relationships formed in work and study, and good guanxi also needs your efforts. For enterprises, guanxi is the origin of business opportunities and is the carrier for transferring value. It plays an important role in the survival and development of an enterprise.

Guanxi is potential fortune in China. Without strong guanxi in China, one can do little well or at least can do little optimally. A person with wide guanxi is considered a very influential person with a strong background (referring now to "mianzi", covered in the next section Part 4 – Mianzi). Without referral or acquaintances, one will have great trouble in meeting senior management or principals. The more guanxi one has, the more "energy stores" he or she will have in reserve. With good guanxi one may beautifully solve some problem just via a telephone call that others cannot solve. Conversely one may not be able to solve a problem regardless of the direct effort put in, while others with good guanxi may succeed easily with hardly more than a greeting.

What is the reason for this? Guanxi is the only magic tool. A person having wide guanxi is considered to have great guanxi "resources". These guanxi resources may help one to learn useful information more quickly, and are transformed into promotion opportunities or other good fortune; at critical times, guanxi resources even may help one escape from dire risks.

The ability to establish guanxi may be measured by whether one is good at dealing with those one dislikes and can do well in an environment one doesn't like.

The following elements are very important for establishing good guanxi.

Firstly, Keeping Our Word

Keeping our word means being honest and acting always in good faith as well as being responsible and trustworthy, which is the principle of conducting ourselves and shows our "personality charm" - all people want to deal with those keeping their word.

Secondly, Establishing Our Value and Transferring Value to Others

The "value" herein means our "use value" more properly. Before checking our guanxi, we should ask ourselves calmly whether we are useful for others. If others cannot use us, it means we have no value at all. The more we are useful, the more

easily we can establish guanxi.

Few can establish genuine guanxi with those who have significantly different social status. Accordingly, even if we are lucky enough to link with a higher-level executive through a weak connection, the executive may not be interested in us at all. One should correctly position oneself to make friends based on one's value rather than try to make friends with all. Our value-based positioning depends on our ability and target at each stage.

After we have established our value, we may see that our friends around also have their own value. Why not link them to transfer more value? If we are just one terminal to receive or send information, we may generate limited value from our guanxi network; but if we become a hub for exchanging information and value, our friends are happy to interact with us, and we may bring about more opportunities all around, thus consolidating and expanding our guanxi.

Thirdly, Readiness to Share with Others

Those ready to share with others - whether information, money or job opportunities - tend to generate more opportunities.

Fourthly, Increasing Our Exposure Channels

We can increase our exposure through attending training classes or workshops, joining association and clubs, dinner engagements, and so on.

Discussion will usually be of a more personal nature, leaving business issues for the office and using the time to establish personal relationships that may then be leveraged at a future time for business objectives.

Fifthly, Do's and Don'ts for Establishing Guanxi

During everyday social interaction, we shall avoid any form of haughtiness. White-collar or gold-collar executives from overseas-funded enterprises often have such attitudes, and are proud to show their business cards as a director or president of a top 500 companies, and take on the attitude that "my title is higher, you should respect me," which is harmful for your guanxi establishment. Indeed Chinese maintain a quite humble attitude regarding their position or status and to do otherwise is considered a very significant loss of face.

We should seek to extend offers of assistance as a show of loyalty and not seek to only use our guanxi when in need, which is considered taboo.

The following principles are important while guanxi is being established:

Genuine Interest

At the first meeting, we shall show our interest in others, listen to others carefully to obtain more information so as to impress others better.

Reciprocity

A person who just wants to receive benefits from others and refuses to give is a selfish one, and will not develop good friendships. We shall deal with others on a reciprocal basis. As the popular Chinese saying says "You will have fragrance left in your hands after you present roses to others." We shall help others on a voluntary basis and shall not refuse offers from others as this denies them guanxi-building opportunity. We can approach each other more closely by helping each other.

Mutual Reliance

Mutual reliance also includes mutual trust. Chinese character "人"(meaning "human beings") consists of one left-falling stroke and one right-falling stroke that support each other, meaning that human beings shall rely on and support each other. We shall establish our reliable image keeping our word, and give prominence to our professional image as a source of value for others.

Sharing

Sharing is the best way to build a good guanxi network. The more one shares, the more one will have. Others will appreciate you for the things you share, and you will be considered honest and hearty if you are ready to share. All people like to make friends with honest and hearty persons.

Conclusion

In conclusion, guanxi is a personal network. We need to put our efforts into establishing and maintaining guanxi as the accumulation of our fortune firstly depends on our abilities, then on our capital, and above all on integration of our resources and guanxi.

For foreigners, having a good guanxi network in China at least can bring the following advantages:

1. Accessing information easily as very little information can be accessed via public sources. However, with a good guanxi network, one can have better business opportunities, such as knowledge and insight into frequently changing policies;

2. Obtaining resources easily, such as tangible assets, including land, labor, raw materials and so on, and intangible assets such as import license, government's permit and so on;

3. Bringing more profits, reputation and status. For instance, foreigners may encourage their employees to develop their guanxi network to obtain more business opportunities, as well as win good reputations.

Think of your guanxi network as a distributed bank account with many sub-accounts being held by many different individuals. Choose those individuals carefully and seek all opportunities to make "deposits." Guanxi-building should be on the daily checklist of every executive. Select staff in part on the basis of their guanxi network, along with their skill and proclivity for guanxi-building. Make guanxi-building a priority of all staff members, and support and encourage them in their efforts – their guanxi network is, after all, part of your guanxi network.

Mianzi

The concept of mianzi (reputation or "saving face") has long been in the blood of Chinese people, but even so, there are different opinions about its value. Some people say that mianzi is an irrational value with absurd elements, while others believe it is a critical part of the social fabric of Asia. Regardless of these differences of opinion, mianzi remains an important part of Chinese and East Asian culture.

One will find that in China, individuals, their friends, family, and social and professional networks defend mianzi fiercely. When an individual's talents, skills or social position are unknown, he will be judged according to the "face" he has in front of others. People who have face are regarded as capable, which is why so many people in Asia are so focused on it. It is the Chinese foundation of social psychology and the unspoken rule behind social culture. To protect another's face is to respect the person; to lose the face of another by your actions or comments is a severe violation of his or her dignity.

Form Over Fact

Face is never a question of fact, but always of form – to say something appropriate at the right time and to avoid inappropriate, degrading or embarrassing comments or actions. Chinese are ashamed of disappointing others, of being ignored and of being interrupted in front of others because these each are seen as a loss of face.

It is easy for Westerners to get into trouble when they forget the significance of

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Asian-style honour and dignity. Not rigid in definition or form, mianzi depends on local customs. Take the mediation of a neighborhood dispute, for example. The "peacemaker" is no less skilled than any European politician. He knows how to keep balance among the disputing parties and how to protect the face value of each. The predominant concern is not for justice, but rather for peaceably settling the matter while maintaining the dignity of all parties.

The Prestige of Face Value

It is not uncommon to "borrow another's face" or take advantage of knowing someone in order to connect with someone else. A job applicant will have better success at a job interview if he can drop the name of someone that the interviewer knows. Even if he's only met the person mentioned once, his chances will improve according to the reputation that the name holds.

People are happy to provide such introductions for others, not only in order to grant the favor and build their guanxi, but also to test their own reputation (face value). It is also common for people, especially in casual social settings, to introduce a guest as "my sister," even when everyone knows full well that the person does not have a sister. The truth of the matter is much less important than the face that is given to the guest.

"A matter of face" is often the reason that explains an undesirable act. For instance, in one popular story a repulsive young man gets invited to a banquet because his father is a senior officer and the banquet master needs to keep up the good relationship with the father. Another example is when one pays a New Year's visit to his boss' home. Inviting the son mentioned in the previous anecdote and taking time out on a holiday for the boss are both things that one would perhaps prefer not to do, yet performing these actions improves the father's face and the boss' face and thus nurtures the connections – and matters of face. This should not be confused with a personal sacrifice that one might make to help a close friend, which is done without hesitation and out of friendship, not as "a matter of face".

Offering a gift of significant value is another way of giving face value, but there are right ways and wrong ways to receive gifts as well. If the gift is something that can be easily shared, such as a box of moon cakes (small cakes that are a traditional Chinese dessert), the receiver should only take part of it and share the rest in order to not be seen as greedy, thereby losing face.

The Other Side of Saving Face

There are individuals who, no matter how blatant the evidence is, will never admit to something that would cause them to lose

face. An employee who makes a mistake that will no doubt cost him the job illustrates such behavior when he resigns first, rather than losing face by getting fired.

It is also not uncommon for dismissed employees to send scathing emails up and down the management chain and across customers and suppliers. This activity is best seen as a transparent attempt to restore face and is frankly just best ignored, as it is widely perceived by recipients for just what it is.

Excessive or disingenuous efforts at "saving one's face" by an individual can temporarily cause a reputation to improve beyond the actual status of the individual, but once this has been exposed, the individual is shamed and in fact loses face. Mianzi can be a delicate balancing act indeed!

The importance of face value varies according to the different social environment that individuals participate in, with face having less importance in families and close personal relationships when compared to external or business relationships. However at the same time, family status, personal relationships, professional status, connections and the ability to influence others are key elements that contribute to an individual's face value.

Mianzi is to be treated with delicate care in China, and ALL efforts should be made to avoid transgressions that lose the face of others. This point is applicable on both the business development side where one may be dealing with senior executives from one's clients as well internally when dealing with staff.

Frankly there are too many scenarios to describe in detail, but a basic approach that is respectful of others and being always sensitive to avoiding creating situations that may be embarrassing to others is a good rule of thumb to follow.

A certain amount of bumbling is expected and easily forgiven of foreigners provided one's actions are viewed as having positive intent.

We'll discuss some examples in Part 5 – On the Ground.

ON THE GROUND

On the Ground

In this part of the series we'll discuss practical application and working with the strengths and within the limitations of Confucian culture. There is no formula, and no guide can be complete, so we will examine anecdotally some of the top issues and scenarios one may face.

Xiáo and Mianzi - What to Expect

In Part 2 – Confucian History and Elements we discussed the principle of xiào (filial piety and respect for elders) and its extension into general society and business management. Xiào prescribes and proscribes certain behaviors, and misunderstanding of xiào is the single most important factor limiting the success of Western enterprises in Confucian societies. Mianzi (face saving) is likewise a

powerful and widespread behavior creating perplexing challenges for management.

Here are some manifestations of xiào and mianzi in real world environments:

- Managers are expected to issue orders, while staff is expected to follow orders.
- Individual initiative and creativity will be observed to be very limited – people are waiting to be told what to do.
- Staff will not object to wrong-headed or ill-considered directives from management greatly increasing the risk of major mistakes – especially in the case of a foreign manager not well experienced in the environment.

- Local managers who may be experiencing problems will not openly report the problems and ask for help (loss of personal face). Even when asked directly by management, managers will consistently deny issues that may exist.

- Managers and staff may not of their own initiative bring up problems they are facing and seek assistance from their supervisors.

- Managers and staff will almost never demand change from top management.

- Most staff have difficulty "selling up" – that is, working effectively with management within clients who are at a higher level than they are.

- Quality problems, whose causes may be well known, may not be openly brought to light for fear or offending superiors who may be perceived as responsible for processes or equipment (losing the face of a superior).

- Innovation and new ideas may be seen to not be forthcoming (for fear of losing personal face in the case of a bad idea or failure, or by reluctance to being seen as challenging status quo put in place by management).

- Clients will at times give vague or evasive answers.

- Team meetings in which one may normally in the West expect a free-flow of ideas may not be nearly as productive or effective in developing solutions.

Certainly the list above does not describe an ideal environment. Many of the limitations, however, can be overcome through certain approaches.

Managing Staff: Becoming Aware

Relative to managing internal staff, managers must first be aware of some of the behaviors to expect and their causes. To intercept problems that may be developing out of sight, managers must be ever-diligent in checking the progress of staff. Where possible, managers should be meeting face-to-face with clients, walking the shop floor and so on.

Being very sensitive and always diligent relative to nonverbal cues is a critical skill to develop. Vague language, highly mitigated speech and evasive or defensive body language are glaring red flags to be taken very seriously and often are indicative of significant underlying problems.

After problems are discovered, care must also be taken in finding and implementing solutions. If a manager offers a solution - then the discussion with staff is generally over, and staff will diligently seek to implement the proposal. Much is usually lost in this approach – namely the insights and

ideas of staff.

Likewise, if a manager asks in a team meeting for a proposal for solving the problem, he may not hear the best solutions proposed as staff will often be very conservative in their suggestions so as not to embarrass themselves with ideas that may be rejected or out of concern for making a suggestion that may be contrary to the opinion of the manager.

A better approach is often a one-on-one discussion in which solutions or proposals are solicited and modifications proposed in the form of questions or in other mitigated-speech manners encouraging a feeling of safety that staff proposals will be greeted enthusiastically and modified in constructive face-saving manners.

Brainstorming, Innovation, Problem-Solving and Team Meetings

Accessing the best ideas, as may be imagined, is particularly challenging for many of the reasons mentioned.

In my early days in China I led an Asian team to develop regional implementation of strategy. This was a very long two days of blank faces and mostly silence with the ultimate result that our plans were largely developed by myself and one Swiss technical leader.

It is advisable to bring in a professional coach (such as a brainstorming trainer) for some of the early meetings of this type until people get slightly more acclimated to expectations and build a bit more comfort in this sort of environment. Expectations should also be clearly stated in acknowledgement of the very different approach to be taken in comparison with staff's previous experience. Where possible meetings should be structured such that ideas are written and submitted – somewhat anonymously – to encourage more openness.

Relative to problem-solving in general, it often works to "assign" a staff member to develop three proposals to solve a problem and to meet one-on-one at a later date. In this case, he has a clear order that he is obligated by duty to fulfill, and the one-on-one review session removes some of the societal exposure and pressure that may be felt otherwise.

The challenge of creating a more open and innovative result in Confucian societies is a very significant one, requires patience, careful thought at each event, steady persistence and usually requires years of effort.

So Who Adapts?

Please keep this point in mind: Asking a Westerner to behave in a more Confucian manner requires that we, for example, develop a bit more decorum and restraint.

But asking a Confucian to behave in a more Western manner is to ask them to behave, in many cases, in ways that they have been taught are deeply offensive and, frankly, taboo. It is simply much more difficult for a Confucian to adopt Western manners than the converse.

In any event, it is certainly more straightforward to adjust one's own approach than to seek to adjust the approach of others.

That said, corporate culture change, while being a VERY significant undertaking, IS possible with some cases being true standouts - Korean Airlines, formerly one of the world's most dangerous airlines is now among the safest due in large to a thorough corporate culture change initiative led by the CEO.

Client Interactions

Delayed decision-making by clients can be (but certainly is not always) an important signal that something may be amiss. Clients will often not reject directly an unacceptable proposal and may instead defer direct communication in order to not lose your face. In the case of a proposal that is to be rejected for any number of reasons, senior client members may offer an range of various difficult to deal with objections. A series of seemingly peripheral but difficult to solve objections is often intended as a clue that a proposal has been or is on the

way to being rejected. Dogged persistence in the face-to-face meeting is, in this case, ill-advised as it will be perceived as an effort to place the counterpart in a situation requiring him or her to violate his or your mianzi. A better approach is to summarize this portion of the discussion by asking for commitment from the senior counterpart to support follow-up between your and their lower-level staffs.

In other cases answers may not be forthcoming for a range of reasons. The client senior manager may not know the answer; he may need more information (but may not ask directly due to mianzi concerns); he may not have the authority to make the decision and may need time for internal discussions with supervisors; he may feel a need to consult with his staff to gain consensus and buy-in. All of these concerns, if discussed openly, have the potential create loss of face for the client-manager. As above, it is best in this case to state clearly the question or concern, why it is important, and ask for commitment for the staffs to resolve the issue in "off-line" meetings in the near future.

It is often completely acceptable to ask for a due date allowing reasonable time for the types of underlying concerns to be addressed by the client. In this case you gain commitment for internal action by the client, so that you may expect better infor-

mation in the near future.

Increasing pressure for immediate answers is almost never the correct approach.

Selling Up

Xiào also significantly limits the ability of most junior staff to interact effectively with more senior staff employed by clients. Yet within xiào, senior executives (more than may be the case in the West) make most of the important decisions. The solution to this dilemma is to have at least one more-senior staff in place in China who can interact with the client senior staff to state issues and concerns and gain commitment to resolution. In this scenario the issues may be worked by junior internal-staff working on the same level with junior client-staff – both working in a manner as surrogates for the senior executives from both sides. It is usually effective to state and explore the business issues to the degree possible, then request that any unresolved matters be dealt with by staff-to-staff interactions.

Building Guanxi

As mentioned in Part 4 – Guanxi, building guanxi should be a regular activity for any executive in China. The role of an executive in China is much more social than may be the case in the West. Opportunities to interact with clients outside the office environment should always be welcomed and sought-out. Executives should always be alert to opportunities to make some contributions to their business partner (clients, suppliers, government officials, etc.) counterparts.

As guanxi becomes established it should not be surprising to be asked for certain assistance, and executives should always seek ways in which to meet the request – if not fully, then at least partially.

True guanxi is a very powerful tool in the executive's toolbox. But it takes years, decades or a lifetime to fully develop. Keep in mind that individuals – not the corporation, hold any existing guanxi that may be of benefit to a corporation. The trend for corporations to "rotate" new executives into a region for 3-4 year assignments is not conducive at all to long-term development of guanxi.

MANAGEMENT STAFFING

Management Staffing

One of the most important concerns in making decisions about management staffing in China is finding someone who can bridge the cultural factors mentioned in this series.

On a personal note, I am a strategist at heart, by training and by experience. But I have to say in the strongest possible terms and based on my work with clients in China and other Confucian cultures that "strong execution of a weak strategy" beats every day "weak execution of a strong strategy."

In my observations, execution is the single first-order effect predicting success, failure or significantly sub-optimal performance. Where I've seen poor understanding of

the factors mentioned in this series and the resulting poor execution, I've seen low performance and, in several cases, out-right catastrophic failure characterized by (in the most extreme case I have observed) more than 5 years of negative ROI with little hope of significant improvement. Where I have observed strong strategy combined with strong execution, I have seen extraordinary performance.

In one case, a client I assisted strongly executed a strong strategy. They were the global leader in their category with about $85 MM in annual revenue but only about $1 MM in Asia. After 5 years they had over $40 MM in Asia (most in China), had assumed market leader position in Asia, and had taken 100% of the market-share from the number-two market participant. So

while China does take patience, it does not take "forever," given a solid approach.

The decisions a company makes about how and with whom to staff their China leadership are among the most important choices a company will make. The first-order consideration in such a decision should be the bicultural capabilities of the leader. Here are a few choices in order of declining attractiveness and some explanations for these conclusions.

Chinese Born and Raised, Chinese Business Experience – Western-Experienced Senior Manager

This choice offers the obvious benefit of an executive having deep understanding of Confucian culture. Likewise, ideally around 10 years of business experience in the West will have created a deep understanding of Western approaches. This sort of executive will ideally be innately skilled in managing internal as well as business development issues in China, yet will have the communication skills and styles to be effective in coordinating, communicating, and easily teaming with HQ Western management.

On a note of caution, one or two years experience in Western business environments is often not long enough to develop easy and natural skill in Western ways. On a similar note, Western experience at a "too-young" age can have the opposite effect of the manager too fully adopting Western ways at the disservice to Confucian approaches such that they are then seen in Confucian societies and business environments as not fitting in and having rude and arrogant approaches – again the key concept here is true "biculturalism."

Company Insider with Extensive Asia Experience

This works extremely well but can of course be quite expensive due to typical expat costs.

Not only do these guys bring the insider knowledge to the local market and team, but they automatically command respect; locals, in every case in my experience, see it as a strong sign of company support to send a high level executive to the region and are very motivated by it.

I have on the other hand worked with businesses that adhere to a strong policy of management localization in an effort to communicate commitment to local staff and to support the career aspirations of local staff. This is wrong-headed on many levels, most notably being a clear violation of beliefs based on xiào that will always dictate that a HQ insider person will have higher status and capability than a local person. It is often also a clear indication of shallow to nonexistent understanding of

Confucian culture and thereby often additionally harm's HQ management credibility.

In my experience skillful HQ executives placed in-region have generally commanded a lot of respect (except in cases where they were arrogant, condescending, ill-behaved, or incompetent) and are much appreciated for the insights they can bring as well as for their ability related to regional advocacy.

If the executive does not already have experience in Asia he needs to be:

- extremely curious
- a fast and avid learner (especially of cultural issues)
- willing to adopt some level of the culture and immerse himself in it with no hesitation
- be patient
- have a great sense of humor
- willing to laugh at the "absurd" situations he will find himself in and at frustrations and obstacles
- be persistent while being culturally sensitive in finding solutions

Localized Foreigner

This approach brings the benefits noted above but can save some expat expense.

Local Manager

This is generally the worst choice in terms of results but it is the cheapest, and I'll briefly mention it only in case it may be considered as a stop-gap measure.

This approach must be coupled with intensive attention of an executive willing to fly-in frequently and ideally one with some experience in Confucian cultural management. The executive will also need to be prepared to issue commands. But these will often be mistakes if he or she is not close enough to the business or do not understand deeply enough the culture. And no one is going to "step up" and openly note that mistakes are being made – they will trust blindly (if uncomfortably) in HQ's "superior" wisdom.

Early movement to localization should be considered in dire situations and as a temporary measure.

Pan-Regional Management

A word of warning is due here – don't expect a manager from one Asian country to be entirely successful pan-regionally – it is a rare Asian national who can work pan-Asia due to the deep-seated and unredressed resentments in the region dating from the WW2 period – not to mention that there are additionally (in spite of a shared Confucian heritage) strong cultural difference across all Asian countries.

It is hard to over-state the depth of negative feelings about one another that cross the national boundaries especially of China, Korea and Japan. These feelings are often not expressed openly but can come as quite a shock to the Western executive who befriends a local to the trusting extent that true feelings are shared.

To just touch the surface, around 20,000,000 Chinese were killed, often in the most brutal and inhumane ways, by Japanese troops during Japanese colonization and war around the WW2 period. Korea was likewise colonized and women forced into prostitution. Chinese citizens were characterized in Japan during this period as inhuman and having lower status than pigs. The Japanese atrocities of the period have never been appropriately apologized nor proper restitution made as was the case in Europe following WW2.

Without trying to be complete and only to give a general feeling, many Chinese view Japanese with pure hatred. Many Japanese on the other hand view Chinese as uncivilized, poorly educated, uncouth, and untrustworthy. Korean-Chinese and Korean-Japanese relations suffer as well from strong feelings all around deriving from past conflicts.

If pan-regional management is the goal, a foreign executive will most often be a better choice.

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