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Doing Business in China: Tips for an Outsider (*lǎo wài*)

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## Doing Business in China: Tips for an Outsider (*Lǎo Wài*)

Xiaowen Tian. *Managing International Business in China*. Cambridge: Cambridge University Press, 2007, 312 pp. Paperback \$51.00, ISBN 9780521861885.

Tim Ambler, Morgen Witzel and Chao Xi. *Doing Business in China 3<sup>rd</sup> Edition*. New York: Routledge, 2009, 304 pp. Paperback £21.00, ISBN 9780415436328.

Hong Liu. *Chinese Business: Landscapes and Strategies*. New York: Routledge, 2009, 224 pp. Paperback £30.00, ISBN 9780415403092.

As Western firms jostle to exploit the opportunities that the world's largest and fastest-growing economy can provide, there is a recognised need for caution, timely advice and sage wisdom. In the early 1990s Lucian Pye noted in *Chinese Negotiating Style: Commercial Approaches and Cultural Principles* (New York, US: Quorum, 1992) that doing business in China is vastly different from the West. He commented that what China lacked in technological and organisational skills, they certainly made up for in the sophistication of their negotiation and relationship skills. To this end, he stated that the Chinese "...have known few peers in the subtle art of negotiating" (p.74), and that "...when measured against the effort and skill the Chinese bring to the bargaining table, American [Western] executives fall short" (p.74).

Reading through the texts of Tian, Ambler et al. and Liu, it is clear that Pye's comments still ring true, and there is still much that Western managers must understand to be successful in the Chinese business domain. This paper takes up this challenge by reviewing three recent texts that aim to guide what Goodall, Li and Warner<sup>1</sup> (p.63) refer to as outsiders (*lǎo wài*) as they navigate the varied and at times difficult terrain of the Chinese business landscape.

A considerable challenge faces the authors of these three texts. As Ambler et al. rightfully point out, "...anyone studying or researching business in China will have realised, there are hundreds of books and probably thousands of magazines and journal articles in print" (pp.9-19). Indeed, a recent Google Scholar search with the words "China" and "business" in the title generated no less than 2150 results.

Unfortunately no book on China provides exactly what is required. Experiential learning can be taught through role plays, simulations and mock negotiations but hip-pocket lessons and emotional tears go beyond reading texts. As Kriz and Keating<sup>2</sup> assert, relationship-oriented business practices are learnt by doing rather than talking. The Chinese liken it to the popular Western allegory of being “thrown in the deep end and having to swim.” However, this challenge notwithstanding, all three texts provide valuable insights to guide outsiders who wish to do business in China. Hopefully, the information contained in these texts speeds up the learning curve and helps to avoid many of the pitfalls that have afflicted others before them.

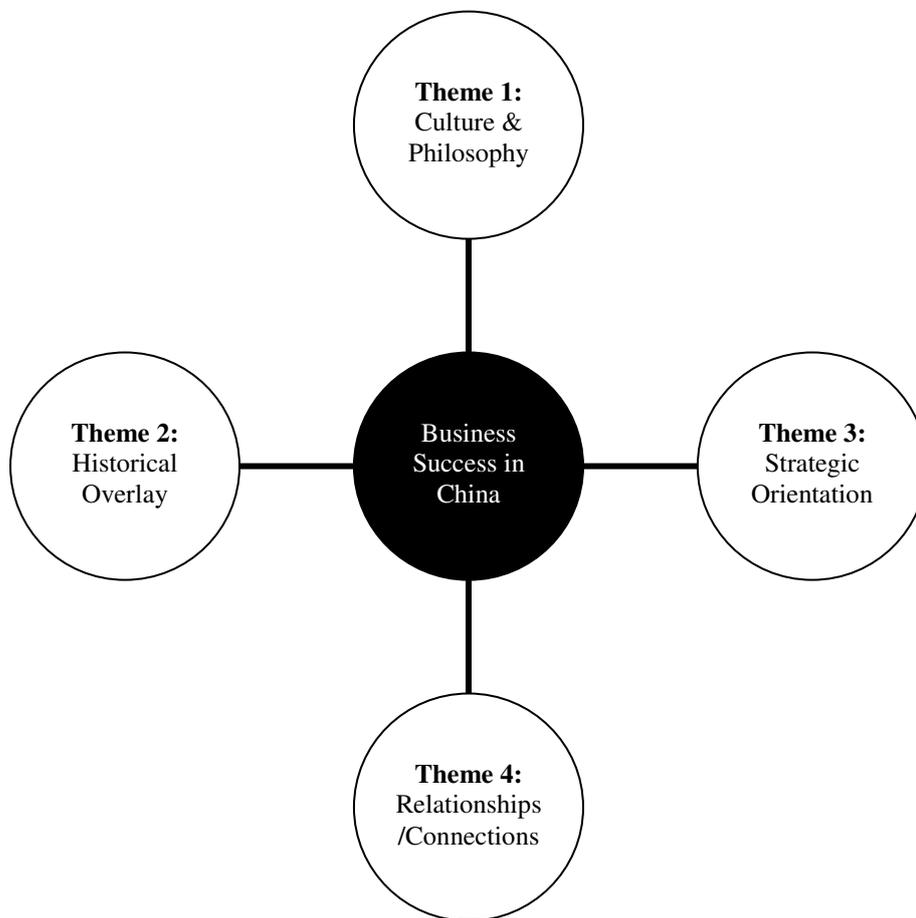
An understanding of the key drivers of Chinese business behaviour is important; as Nisbett’s *Geography of Thought* (New York, US: Free Press, 2003) explains, Asians and Westerners have very different modes of thinking. Much of the difference in thinking is often attributed to divergent worldviews that have been inspired by contrasting philosophical, historical and linguistic origins. To this end, Liu suggests that a book that sets out to guide *lǎo wài* should be “...designed to help Western readers to perceive businesses in China from a Chinese perspective and through the lens of Chinese logic” (xiii). To illustrate the inherent differences and varied ways of thinking between Western and Eastern logic, Liu uses the metaphor of Chinese and Western medicine. Liu notes Western medicine’s linear cause and effect approach that starts with symptoms, testing, and then medical treatment whereas Chinese medicine uses a circular, holistic approach:

*[F]irst seek the cause of the symptoms by taking a holistic view...generally employing four diagnostic methods: interrogation, inspection, auscultation and olfaction and pulse-taking and palpitation. The condition is then often treated using different methods such as herbal medicine, cupping, breathing technique therapy, plaster, acupuncture and massage. (xiii)*

Our review seeks to make its contribution against this backdrop. Using an interpretive framework that incorporates culture, philosophy, history, strategy and relationships, we seek to answer the “why” behind Chinese business rather than the “what” and “how.” These three texts have been selected because, when combined, they provide the novice reader of Chinese business with appropriate tools and knowledge to avoid many of the pitfalls Western businesspeople have experienced.

The conclusion of this article discusses this in ample detail. To do justice to the texts the rest of the review is broken up into five sections. The first section provides a detailed overview of each text. From this overview, it becomes clear that while the texts enjoy some level of commonality, many subtle differences warrant attention. These are discussed in more depth in the four subsequent sections under the following interpretive themes: (i) culture and philosophy; (ii) historical overlay; (iii) strategic orientation; and (iv) relationships and connections. Figure 1 presents these themes graphically, highlighting that doing business in China is inextricably linked to a good understanding of each of these themes.

Figure 1. Interpretive Framework



### *Overview of the Three Texts*

The three texts that are the focus of this review were selected because they each have a complementary perspective on the challenge confronting non-Chinese businesspersons wanting to expand their business into China. The first of these, Tian's *Managing International Business in China* (Cambridge, UK: Cambridge University Press, 2007), is built around case studies and vignettes. It offers rich insights backed by interesting facts and company examples. Unlike Ambler et al. and Liu, who address a more general business audience, Tian's text is clearly focused on large trans-national firms wishing to expand into China. Content is dedicated to broad international business issues such as foreign direct investment (FDI), entry modes, operations, marketing and human resources management. However, Tian does traverse some interesting Sino-centric issues in depth, and his understanding of *guānxi* and *strategem* is impressive.

Tian's book is written for a senior undergraduate and a post-graduate audience. Consequently, the style focuses around helping the audience to understand simple theory through the use of cases and key lessons. The main goal for the author is to reconcile theory in the West with practice in the East, with particular attention to the trans-national firm. To do this, Tian introduces the reader to several key Western theories including the eclectic OLI paradigm (ownership, location and internationalisation) from Dunning's *Multinational Enterprises and the Global Economy* (Boston, US: Addison-Wesley, 1993). This is an important tool for trans-nationals who are choosing an entry mode. Strategic fit is also identified by Tian as an important concept in China. The author refers to an old Chinese proverb "sleeping in the same bed but having different dreams" (p.100) to illustrate how implicit and competing objectives can cause problems for trans-nationals seeking to do business in China. Such problems caution trans-nationals to be wary of PRC government's sensitivities over pillar industries.

The first few chapters of Tian's book set the scene for a detailed and granular discussion of international business models and "war stories" of foreign expansion into China. The introduction covers the obligatory background on China's rapid economic expansion, with pertinent data on GDP growth and FDI figures by country, industry and importantly by region. The regional breakdown is excellent and adds real value to the text. The lack of up-to-date data is an issue with this type of analysis, but we concede that is more likely a reflection on availability rather than the author. The

book does, nevertheless, provide some interesting statistics on China and valuable information on landscape, managing *guānxì* strategically, negotiating with Chinese partners, and protecting intellectual property rights—all of which are worthwhile contributions.

Another valuable aspect of Tian's work relates to his discussion of China's legal system. In particular, the author dedicates chapter ten to protection of intellectual property rights. This is obviously a real issue to businesses wanting to succeed in China. Tian offers some practical insight and good examples of how companies like Proctor and Gamble have been proactive in trying to combat such breaches. Interestingly, as many sinologists suggested would be the case, China's induction into the World Trade Organisation has not been the panacea that some Western countries were hoping for. To this end, Tian reminds us that laws are often not the problem in China; rather, the interpretation and implementation of these laws create challenges. He asserts that much of the challenge relates to ambiguity in legislation, weak judicial enforcement, protectionism and corruption.

The old rule-of-thumb used to be that the *lǎo wài* should avoid direct conflict because any victory would likely be pyrrhic. However, times are slowly changing and Tian uses examples to show how protection coalitions and zero-tolerance is having some impact (albeit small). He uses the infamous case of Beijing's Silk Alley to aptly illustrate that the counterfeit market in China is still thriving. Ironically, expats, their spouses and Western tourists are often at fault. In the ultimate paradox, wealthy Chinese have increasingly resorted to shopping overseas for luxury brands to reinforce their status, and to demonstrate that they are actually purchasing the real thing.

The mixture of Western theory and Chinese practice, and the interspersed cases, is a real asset of Tian's book. However, the text neglects to discuss what we term as the Chinese divergence–convergence debate. China has a convergence–divergence paradox related to primary, secondary and tertiary markets that has implications for trans-nationals wishing to expand into China. Markets like Beijing, Shanghai and Shenzhen (a major city that was once a humble fishing village only 30 years ago) have grown rapidly as the result of the convergence of many different, or divergent, cultural groups. These cities are like Chinese “soup bowls” with rural workers from all over China participating. Such diversity provides a unique challenge for expansion-oriented trans-national firms.

Another issue of interest to the trans-national is the tiered city concept. In line with Dunning's location consideration from the OLI paradigm, trans-national firms would benefit from a better understanding of how the central Chinese government supports and manages urban development, and the implications of their tiered model on the infrastructure and labour availability. Finally, many of the cases presented by Tian have also been presented in other texts. Therefore, it would have been valuable for Tian to explore other pedagogical tools given the strong academic focus of his book.

Ambler, Witzel and Xi's *Doing Business in China* (New York: Routledge, 2009) is in its third edition and has become acknowledged as the bible [or Tao] for *lǎo wài* seeking to crack the China market. This book takes us on an interesting journey into the psyche of Chinese business, drawing on case studies and primary research to illuminate the way. To this end, the authors identify that many who have ventured to China seeking commercial rewards have left disenfranchised. They suggest that most of the expatriates they meet during their China sojourns fall into two categories: those who love China and those ready to go home. As a book, *Doing Business in China* captures the reality, ambiguity and paradoxical nature of China in a way that few others have achieved.

Ambler et al.'s book focuses on the Western businessperson entering China for the first time. One of the real strengths of their text is its additional resources and references that are interspersed throughout. They have also used cases to strongly reinforce their points. They start by identifying that the new entrant should begin at home and seek expertise from "those already in the know" (p.18). Such sources of information could be specialist information providers; home government; home embassy in China; home-country professionals and businesses; dedicated trade bodies; Chinese embassies abroad; Chinese businesses; and, of course, the Internet. Interestingly as part of the toolkit the authors make a key recommendation to read a range of relevant modern and historical texts including Moise's *Modern China: A History* (London, UK: Longman, 1994), Hucker's *China to 1850: A Short History* (Stanford, US: Stanford University Press, 1978), and Huang's *A Macro History of China* (New York, US: M.E. Sharpe, 1990).

Ambler et al. then attempt to illustrate better ways to approach a first visit to China. They provide a rich description of the background and history of China's cultural and philosophical traditions. Notably, in the spirit of the Chinese numerical

metaphor, they nominate their own ten key figures in Chinese history ranging from the Duke of Zhou through to Deng Xiaoping. One of the strongest aspects of Ambler et al.'s work is their in-depth treatment of regional variations. This is significant because it illuminates the vast geographical, social, political and cultural differences within China, dismissing the assumption of homogeneity that is often the view held by the *lǎo wài*.

The authors consider variations in ethnicity and language before progressing to culture, and in turn, the oft-forgotten issue of food—which Ambler et al. refer to as the ninth art as it is recognised within China. To capture the regional differences, the authors nominate 12 regions that they believe have distinctive characteristics worthy of note. These include (i) North; (ii) Huang He Valley and the North West; (iii) East Coast; (iv) Dongting Hu and the Lower Chang Jiang Valley; (v) Upper Chang Jiang; (vi) Southeast Coast; (vii) Far South; (viii) Far Southwest; (ix) Manchuria; (x) Mongolia; (xi) Turkestan; and (xii) Tibet. While some may contend with their segmentation, as indeed we do, it nonetheless provides a very useful tool by which to evaluate the complexities of China.

Ambler et al.'s description of China's Confucian roots and its implication for culture and relational concepts like *guānxi* is an important consideration that we will discuss in more detail in the subsequent sections. Needless to say, however, an understanding of cultural and philosophical foundation of business relationships is paramount to success in China.

Like Tian, Ambler et al. also devote considerable attention to the distinction between the Western “rule of law” and the Confucian “rule of man.” To this end, Ambler et al. dedicate chapter five to a review of the way the law operates in China, and, in particular, as this relates to doing business. The authors provide some interesting examples of how Starbucks was successful in upholding a trademark, but equally showed how volatile the legal system can be in noting how Pfizer lost its legal battle to register a transliteration of Viagra because of its existing registration by a Guangzhou firm. Ambler et al. caution that while legal processes are developing rapidly in China, the notion of law is still a fuzzy and complex area. They suggest, like Tian, that arbitration and mediation in China is still often a better response.

This brings the reader to part two of their text, which addresses the practical considerations for establishing businesses in China. Interestingly, the authors contextualise this discussion against the backdrop of creating harmony. Like Tian's

focus on trans-national organisations, this section of the Ambler et al. book highlights a debate about whether one should go it alone (wholly owned foreign enterprise), which is the increasing trend, or to partner with local businesses (joint venture). Over the past few decades, the latter was the dominant means of foreign entry because China policy encouraged such partnerships as a way to support local industry, reduce complexity and mitigate high-profile failures. Interestingly, many of the early joint ventures were a charade anyway with their “token” China partner used as a passport for international entry. Ambler et al. suggest that there are strong positives for both strategies, and that it really depends on the specific circumstances that are driving entry into China. It is worth noting here that, as Ambler et al. do in their text, China is full of exceptions. Therefore it pays not to get too carried away with simple stereotypes.

One of the more interesting variations of Ambler et al.’s book is their chapter on “doing business with the sojourners”. They concentrate on Taiwan and South East Asia, estimating that sojourners constitute about 60 million people with a GDP in excess of \$740 billion. While such figures must be treated with caution because no exact figures are available, the authors do make a very cogent point about how Chinese expatriates, or *huá qiáo* as they are known, are economically sophisticated and strongly motivated. *Huá qiáo* have attained commanding positions in the economies of many countries, especially in East and South East Asia. To this end, they suggest that Western businesspersons would be well advised not to ignore the value that sojourners can play—both at home and as partners for entering China.

Ambler et al. also note that Chinese businesses have responded quickly to the liberalisation of the Chinese economy. They state “...the typical Chinese business today is a small to medium enterprise [not simply state owned enterprises as was often the case in the past] run by a close group of family or friends, perhaps graduates from the same university class” (p.253). Fuelled by neo-Western aspirations of prosperity, this new breed of Chinese entrepreneur is capable of transcending the East–West divide, and that they are very focused; as Ambler et al. also note on page 253, they are “prepared to work until they drop”. Once again, one should be careful of such stereotypes, but Ambler et al. make a particularly convincing point that the main Eastern parts of China are a long way past being considered a developing economy.

Ambler et al. conclude their book appropriately by offering another of their Chinese-style numeric metaphors—the five pillars—which relate to aspects of

Chinese business culture that are mandatory for success. These include: (i) *guānxì*; (ii) continuity; (iii) the market; (iv) *ren* and the organisation (referring to the mutual obligation between leaders and subordinates); and (v) obstacles. Though the essence of these pillars is discussed in subsequent sections of this paper, the final pillar (obstacles) deserves brief elaboration. Ambler et al. remind us that the cultural, geographic and political complexity of China reinforces the notion that “...there is always a trade-off between advantages and disadvantages” (p.266) when doing business in China. The complexities as they go on to suggest “may scare away many [*lǎo wài*] faint hearts” (p.266).

Liu’s *Chinese Business: Landscapes and Strategies* (New York: Routledge, 2009), like Ambler et al., focuses heavily on the cultural and philosophical underpinnings of Chinese business. The text is built around a traditional Western environmental analysis; however, Liu takes this approach to another level with his emphasis on history, philosophy and temporal issues. We believe that this is not a lesson simply for *lǎo wài* wanting to move into China, but that there are insights that can assist entry into virtually all international markets. Liu appears to have located a few key aspects that he calls a *foundation* in the Chinese business environment that most business books have previously either omitted or inadvertently overlooked. This final text in the triumvirate review is in our opinion—historically, philosophically and culturally—an excellent guide for *lǎo wài*.

The excursion that Liu takes us on is rich in understanding with its review (e.g., military classics and the documented history of China). No single book dedicated to doing business can do justice to China’s rich history; however, Liu’s overview of dynasties like the West Zhou, Qin, Han, Tang, Song, Ming and Qing adds real insight for *lǎo wài*. Seldom do such business texts really delve into the way Chinese think. When paired with Nisbett’s book comparing the Western and Chinese mind, the two provide an excellent entrée for those new to China.

Liu also provides a detailed introduction to the Chinese language, with a comprehensive overview of pictographs, simple and compound ideograms, phonograms, phonetic loans, and derivatives. Such a treatment of language is seldom seen in traditional business texts. It is an important contribution that sets Liu’s book apart from the other texts reviewed here, as well as the Chinese international business literature more generally. Language, as Liu identifies, is not only critical to communication, but it provides valuable insights into the history and cultural

foundations of Chinese society. This then leads Liu into a detailed discussion about the holistic and imaginative versus abstract nature of Chinese thinking. A diagram with two chopsticks is used as a cogent reminder of the nature of the two ways of thinking—seen from a “bird’s-eye view” of the thicker ends, chop sticks placed together make four cubes and a paddy field pictographically.

However, despite Liu’s commendable discussion of the formal aspects of Chinese oral and written communication, there is an obvious omission of body language. Chinese live in what is classified as a high context culture, and this places great value on aspects like visual physical cues, propriety and appearance. As such, one must be careful not to focus too heavily on oral and written language alone. This is important given the significance of notions of face (*miàn zi*), particularly in Chinese business dealings. Interestingly, this is why drinking games in China have much more importance than simply seeing your guest become inebriated. The Chinese realise that a loose intoxicated tongue tells much about real truth and trust.

Another important addition to the text is the focus on science and technology. China has a long tradition of technological development; this is an important reminder that China is serious about its science and technology plans. Tian also has a section on such issues; however, it becomes a little trapped in the Western notion of research and development and optimal location. Liu notes that the overseas educated Chinese will have an important impact here. As he identifies, this population now includes more than 100,000 Chinese students going abroad each year to complete undergraduate and postgraduate study.

Liu believes that this has contributed to China’s renewed emphasis on innovation, leading to a dramatically increased number of patent applications and international collaboration with the university sector. Those interested in a fuller understanding of the early predominance of Chinese innovation and technology can always turn to an edition of the various seminal works of Needham such as *Science in Traditional China* (Boston, US: Harvard University Press, 1982) and Winchester’s *Bomb, Book and Compass* (London, UK: Penguin, 2008). Liu thus takes us on a more contemporary journey in chapter eight with a focus on the competitiveness of industry in China. He alludes to the poor intellectual property practices and enforcement of Chinese firms, along with high energy consumption and an underdeveloped rural economy; however, he does indicate that emergent Chinese industry seems to be reversing the trend. He points to some of the notables like electronics brands Lenovo

and Haier as exemplars of the new China. Liu closes his text by offering a key strategic framework for doing business in China, noting that those wishing to succeed in China in the future must find an appropriate balance between the *guānxì* driven and market-driven forces.

### *Theme 1: Culture and Philosophy*

When it comes to communal themes the importance of culture and philosophy is featured prominently in all three texts. The ideas put forward by Liu are an exemplar as already alluded to. Indeed, a text on doing business in China without such a treatment would be futile because it would miss the rich contextual nature of the Chinese domain. To this end, Tian cites Deng's suggestion that we should "search for the stones to cross the river" (p.22). Without doubt one of the pivotal stones in approaching any nation, and particularly China, is a comprehensive understanding of culture.

The absence of a detailed discussion of culture and philosophy at the beginning of Tian's book means it meanders a little at first. Moving straight into a discussion of facts and the political-economy seems to treat culture as being less important than the macro-economic data that describe each industry and region. Yet these cultural and philosophical dimensions help to explain the macro-economic differences. Tian relegates Confucian traditions to chapter six and his discussion of negotiating with Chinese partners. Although he adds to the Confucian discussion (e.g., with aspects like moral cultivation, family and interpersonal relationships, respect for age and hierarchy, harmony and face) his overall précis of such areas—like his review of language and thinking—is too brief.

Conversely, Ambler et al. and Liu position culture and philosophy as a key determinant of success for doing business in China. Ambler et al. do caution, however, that "... a comprehensive coverage of the roots of contemporary Chinese business thinking would take a thousand scholars a thousand days" (p.69). They suggest that expatriates moving to China would be best served by investing in a comprehensive library of relevant China texts, warning that failure to do so would likely lead to frustration and ultimately failure. Ambler et al. add such a library of knowledge, when combined with experience, will provide the *lǎo wài* with a head start in their journey to comprehend the inner workings of China.

Liu asserts that culture and philosophy provide a lens through which the West can begin to understand China's approach to business. In a similar metaphorical vein but with an important twist to Hofstede's *Cultures and Organisations: Software of the Mind* (Beverly Hills, US: Sage, 1991), Ambler et al. use the "furniture of the mind" (p.69) to discuss Chinese cultural development. For Ambler et al., doing business in China first requires outsiders to understand the furniture that Chinese probably have "for much of the time, long ceased to notice" (p.69). Such a metaphor has merit. The Chinese are strongly versed and acculturated to inculcated values and patterns of behaviour; colloquially they do "become part of the furniture." While the outsiders see familiar pieces of furniture, they will also see new, vintage and strange furniture. The different furniture is akin to seeing alien or in this case Sino-centric cultural and philosophical nuances. Ambler et al. assert the furniture of the Westerner's mind is based on Greek, Jewish and Christian patterns. When a *lǎo wài* approaches the Chinese psyche inside, they argue that the room they enter is "dimly" lit, and so they are bound to stumble. However, for several reasons the Chinese have been privy to the West's views for some time and according to Ambler et al. the Chinese have had time to adapt. Consequently they enter the Westerner's room with much more light. In many ways Deng's river metaphor would have sufficed as one could imagine a cultural novice crossing the river with either a blindfold or in the dark.

Key cultural values highlighted in all three texts that are deemed important to Chinese society include age, hierarchy and authority and the importance of face. Ambler et al. focus on a more emic or within-culture discussion. They believe it is a much more elegant approach and better captures the East–West dichotomy than the more popular work of Hofstede. Ambler et al. are quite condescending regarding Hofstede; they note the inappropriateness in China of his "either/or trap" (polarised cross-cultural dimensions). Criticism of Hofstede is increasingly common in the international business literature. However, to be fair to Hofstede, his is an etic or cross-cultural evaluation and its "trap" has probably more to do with his work's notoriety and excessive coverage. Ambler et al. identify that investigating context in China is important. They note for example that the Chinese are both collectivist and individualistic, not simply one or the other as Hofstede's dimensions describe. In response, they highlight Chinese emic variations to Western decision theory noting the importance of the following aspects (pp.85-87): motivation and consequence;

unity and diversity; circle and sequence; harmony and self-interest; and certainty and uncertainty.

Ambler et al. and Liu are among only a few international business texts that attempt to explore philosophy in some detail. Beginning with a review of Chinese philosophy dating back 4000 years, Ambler et al. take the reader on an excursion through Daoism, Confucianism, Legalism and Buddhism. Importantly, they acknowledge that Confucianism is not a religion, as is often the misconception of the *lǎo wài*. They discuss Confucian belief in the context of its rituals and conventions, focusing largely on the original sage's seminal teachings rather than the teachings of his followers (Mozi, Mencius and Xunzi). This discussion is then followed by a comprehensive review of Daoism (or "the way") with its focus on balance and dealing with paradox. Ambler et al. end by deriving eight key cultural and philosophical concepts in Chinese thinking that Western managers needed to be familiar with: (i) balance and paradox; (ii) virtue; (iii) rituals and rites; (iv) face; (v) benevolence; (vi) rightness or righteousness; (vii) yin-yang; and (viii) know-how or procedural knowledge.

### *Theme 2: Historical Overlay*

Liu provides the most extensive historical narrative of the three books. His discussion extends from the prehistoric (4500–2000 BC) through to the modern times, highlighting significant historical periods and events. For instance, Liu discusses the impact of unification under the Qin Dynasty (221 BC) wherein the kingdoms were united under a single emperor. This unification was transformative, resulting in standardisation of weights, measures, money and language. Liu explains that from Qin to Qing China had 564 emperors; the era of frequently changing emperors ended only in 1912 when the Kuomintang led the new Republic of China.

The historical overlay adds significantly to our comprehension of Chinese traditions. For instance, only through an assessment of history can we start to understand China's industrial development. Fernandez-Amesto in *Millenium: A History of Our Last Thousand Years* (London, UK: Black Swan, 1995) contends that "...it is a common-place irony that three inventions which helped to establish western world hegemony – the magnetic compass, gunpowder and the printing press – had been known in China for centuries before they appeared in Europe" (p.680). Needham's extensive study on the subject, discussed earlier, has led to what is

commonly referred to as the Needham question—namely, why did China fall away while the Western world benefited from industrialisation?

In *Guns, Germs and Steel: A Short History of Everybody for the Last 13,000 Years* (London, UK: Vintage, 1997), Diamond asserts that unification, and in particular the empire rule, was largely to blame for China's slowing industrialisation. He suggests that the real capitulation, however, was not felt until the Ming Dynasty in the 1400s. As Liu identifies the Ming had seen an unprecedented growth of technological advances. This has been almost mythologised by Menzies in *1421: The Year China Discovered the World* (London, UK: Bantam Books, 2002) through his tome on Admiral Zheng. Unfortunately, Menzies and its controversy is spoiling what the Chinese did as an important historical feat. Both Menzies and Diamond highlight how historical wild cards can change the course of history. Liu alludes to a series of negative events that led the wild card in this instance (Ming Emperor Chu) to reign in what was an international renaissance of inventiveness and exploration by China.

Liu follows his grand tour of Chinese history with a more recent review of Mao, the Korean War and The Cultural Revolution. Taken together, this rich discussion of China's impressive past paves the way to understanding contemporary Chinese business practices. Ambler et al. do give a reasonable amount of historical detail in their early chapters, which offers some similarities and differences but not to the detail of Lui. Tian prefers to rely on his brief on Confucianism, a touch of Mao and Deng's pragmatism, rather than going into such depth on the historical overlay. Even though no single business text can really hope to do justice to China's comprehensive historical undertone, we believe that Liu has come extraordinarily close.

### *Theme 3: Strategic Orientation*

Although Tian and Ambler et al. address Chinese strategic orientation in reasonable detail, Liu offers the most comprehensive review of the three texts. It is appropriate that all three have coverage of strategy and military treatise because it has become obvious that this is a required inclusion for any reasonable work on doing business in China. Stratagem and the calculative nature of the Chinese people is one of the essential parts of what Yan<sup>3</sup> referred to as the Chinese character (*guó qíng*). He asserts that foreigners need a deep understanding of *guó qíng* if they are to succeed in their business dealings with local Chinese. Similarly, Deng argued that stratagem is part of

the essence of the Chinese character. Reverting to our earlier Deng metaphor of crossing the river, it seems that the *lǎo wài* needs a firm footing here [on strategy] or they will fail to make it to the other side.

Ambler et al. focus on the most notable of all strategists—Sun Tsu—discussing how his strategic writings deeply influenced Mao. Tian also considers military treatise but more in the context of negotiating style. Stratagem and Chinese negotiating style in this instance is viewed as a representation of a combination of Sun Tsu, Taoist yin-yang principles and elements like Confucianism, wrapped up in China's other rich cultural and philosophical traditions. It sets the scene for the complexity a *lǎo wài* faces and identifies why it has become quite a conundrum for the novice; fortunately or unfortunately as Ambler et al. suggested the *lǎo wài* would only see a very dark room and would not know what is coming. Tian's work concurs well with the work of Fang in *Chinese Business Negotiation Style* (Thousand Oaks, US: Sage Publications, 1999) and Pye (mentioned earlier), which emphasize the importance of interpersonal trust over formal contracts in negotiations. Tian's book offers valuable guidance on how to negotiate with Chinese partners. Tips offered by Tian (pp.140-148) in this regard include identifying the negotiation behaviour within its relevant context; taking a people-oriented perspective; having the appropriate negotiating team; ensuring you are talking to the top government people where appropriate [the Chinese often call this finding the right person]; employing tactics when necessary and where appropriate; and, importantly being aware but also being yourself.

With a strong emphasis on history, it is not surprising that Liu takes a more circumspect view of strategy, providing a detailed narrative on numerous works on past Chinese military strategists. This is unique to this business text and is likely to be uncommon in more general texts. Liu acknowledges the rich tradition of stratagem and how it has been used in "...politics, commerce, warfare, diplomacy, and in cultural and social activities" (p.61). In Sun Tsu tradition, the ultimate victory, as Liu points out, is won through cunning, resourcefulness and astuteness and not through fighting. Liu also offers colourful vignettes to reinforce the nature of Chinese stratagem. For instance, on one occasion he refers to a commonly told story credited to Sun Tsu about the King and General who wagered on three races between different paired horses. The King has first choice of horse and has the advantage. Sun Tsu advises the General to pit his worst against the best—a race he subsequently loses.

The General's best horse then races against the King's second best while his next best (second) is pitted against the King's worst. While the General forgoes the first race, he is victorious in the remaining two, and is therefore the winner overall. Liu relates this vignette to products and modern business and how Asians and Japanese often compete.

While Liu provides a comprehensive overview of Sun Tsu's key pillars, and effectively relates many Sun Tsu sayings to anecdotes about doing business in China, this discussion is a little one-sided. This is a real weakness because one could easily identify numerous counter cases that show no correlation. This is not simply a weakness here. Similar claims have also been made against using this type of analogy in business texts and articles; a range with counter cases seems to be a better option. However, Liu should be commended for his extensive treatment of other military classics (see chapter four) such as Tai Gong's six secret teachings; the methods of Ssu-ma; teachings of Wu-Tzu; and the military classics of Wei Liao Tzu. This is among the richest coverage of such classics in any business text. His discussion provides rich insights into the way Chinese strategists think and would help any *lǎo wài* to better contemplate the complexities of Chinese business negotiation. It is one area that Ambler et al. may want to strengthen given our expectation of an inevitable fourth edition.

#### *Theme 4: Connections and Relationships*

*Guānxì* has received much attention in the West over the past decade. Interestingly not much was written on the topic until Mayfair Yang's *Gifts, Favours and Banquets* (Ithaca, US: Cornell University Press 1994). In hindsight this was a seminal contribution and despite all subsequent attempts few have managed to capture the same depth on *guānxì*. Because of its notoriety, all three texts delve into *guānxì* in detail, offering some similar and unique angles. For instance, Ambler et al. dedicate much of their text to the significance of networks, connections and relationships. They dedicate chapter four solely to this pursuit and note that China is a relationship-oriented society, encouraging *lǎo wài* to understand *guānxì* if they want to succeed in China. Likewise, Tian dedicates chapter three to *guānxì* and identifies at the outset:

*[T]he key to get anything important accomplished in China lies not in the formal order, but rather in who you know, and in how that person views his or her obligations to you. The Chinese call this concept *guānxì*. (p.50)*

Subsequently, it is unlikely that a serious text written today about business in China would not contain a significant treatment of this key concept. Nevertheless, Liu cautions us along with his use of selected citations that *guānxì*'s role may be diminishing. However, this is not an opinion shared by Ambler et al., who contend that "...for the Western manager coming to work in China, an understanding of *guānxì* is critical" (p.100). They suggest that outsiders must recognise that there are many definitions and at times conflicting classifications of *guānxì*. By inference, it is likely that the mixed feelings about the importance of *guānxì* could be an artefact of the difficulty in classifying relationships in China. At a practical level, Ambler et al. emphasize the importance of building *guānxì* with the bureaucracy, government and the Communist Party. This is a particularly important lesson for *lǎo wài* who may think that they can simply do business in China with companies.

Liu pays less attention to *guānxì* than the other two books. But what he presents is insightful. By contrast, he drops the narrative and proceeds to delve into a conceptual refinement of the rationality and role of *guānxì*, linking the importance of *guānxì* to a two-by-two matrix comparing the nature of exchange and the level of market regulation. He proposes that *guānxì* is extremely important in a regulated industry that is operating in a seller's market, where buyers must rely on *guānxì* to secure supply. Alternatively, it is less rational he suggests to be using *guānxì* in a non-regulated industry where the balance of power rests with the buyer. While there is no empirical evidence to support Liu's claims, he does offer some interesting anecdotes to reinforce his framework. In particular, he is quite successful in illustrating how *guānxì* in Chinese markets differs significantly from the typical linear transactional processes that are commonplace in the West.

Tian takes a somewhat radical approach to his discussion of *guānxì*. He concurs with the other texts on many of the main issues, but then proceeds to offer a comprehensive strategic overview of how foreigners could operationalise *guānxì*. Notably, both Tian and Ambler et al. identify the importance of understanding the darker side of *guānxì* related to the back door and corruption. Avoiding getting caught up in an ethical stalemate; they suggest Westerners and *lǎo wài* focus on more

positive aspects of relationship development. Irrespective, Tian's ethical debate (pp.52-53) is one of the best on the topic as is Ambler et al.'s ethical interlude (pp.128-136). In discussing the relative merits of *guānxì*, Tian reverts to a more conventional environmental analysis, discussing the strengths, weaknesses, opportunities and threats that *guānxì* provides. However, he cautions Westerners about the issues related to *guānxì*.

*[I]n formulating and implementing guānxì-based strategies, therefore, the firm has to design its programmes and procedures carefully, in such a way that the exchange of favours is culturally and legally acceptable and, therefore is not regarded as corrupt, and the exchange of favours is not carried out in the public gaze. (p.65)*

The latter point alludes to the importance of maintaining propriety and avoiding engaging in *guānxì* that is perceived as untoward and illegal. To this end, the author cautions readers about the blatant use of the back door, highlighting a case where a US company was prosecuted under the Foreign Corrupt Practices Act. The complexity of *guānxì*, particularly at a cross-cultural level, will inevitably lead to continued debate and scrutiny. Importantly, armed with the knowledge imparted by these three texts a *lǎo wài* will have much better understanding of the relationship-orientation of the Chinese market; at this stage *guānxì* really does appear to form one of the key stones for a river crossing.

#### *Concluding comments*

For the Western managers about to embark on their first tour of duty it is easy to offer some simple advice—read Liu's *Chinese Business: Landscapes and Strategies*. This text offers the novice businessperson with an easy read of the historical, cultural and philosophical underpinnings of the basics of Chinese social-cum-business life. It will also overcome much of the unnecessary culture shock that confronts many *lǎo wài* entering China for the first time. China is a society built on relationships; the key to success in any such society is to begin with knowledge of oneself. Sun Tsu acknowledged the importance of understanding “oneself” [first and foremost] before assessing the troops and environmental challenge that lay ahead; this concept is elaborated on well by Liu.

In addition to Liu, we concur with Ambler et al.'s suggestion that those new to China should acquaint themselves with some of the *classics*. For instance, the Confucian *Analects* will offer the novice much wisdom about Chinese thinking. However, when it comes to understanding human behaviour it is hard to go past Sun Tsu's *Art of War*. This is quite an achievement for a treatise created well over 2000 years ago. In this regard, it has often been documented that the Chinese see business as a zero-sum game. To them it is not about win–win but historically it is built on the belief that if someone wins then someone else must inevitably lose. In this hegemony, defeat is not simply about loss but about growing empires and total submission. This is well illustrated in the ancient game of *wéi qí*. The simplicity of the game appears at first very tempting; however, mastering success soon becomes dependent on the complex use of stratagem, which in this game it is often about building an empire. Like *guānxì*, stratagem is not something taught; rather, it is programmed into the Chinese psyche.

Following on from Liu and having built a familiarity with some of the classics, it would make sense to move on to Ambler's *Doing Business in China*. No two Chinese are alike; this text offers more than a simple diatribe about the Chinese. It acknowledges that this environment is in a rapid state of flux and full of paradoxes. Adaptation and flexibility is a prerequisite in China. Niels Bohr has been attributed with the comment in reference to quantum physics that “if it does not make you giddy or dizzy you really cannot begin to understand it”. Welcome to China! As the opening line by Stephen Phillips (CEO, China-Britain Business Council) in the foreword of Ambler et al.'s book suggests, “the dizzying pace of change in China makes it hard to keep up” (p.ix). He goes on to conclude, like Ambler et al., that success must be built on preparation and adequate research.

While much has changed in China since the release of the original Ambler et al. text in 2000, certain truths remain unchanged including the huge regional income disparities; the burgeoning growth of China's industrial output; as well as the support and dominance of the Communist Party. The authors point out that China's two main protagonists—the Communist Party and the government—recognise that the success of China is closely related to the health of its economy, culture and people. The real challenge, as the authors rightfully point out, is to balance capitalism with a strong dose of socialism.

Although Ambler et al. provide a strong historical and philosophical backdrop (albeit less developed than Liu), their work is very pragmatic and is essentially concerned with combating the modern business and marketing terrain. To revisit Deng Xiaoping's stepping stone metaphor, the *lǎo wài* should look carefully when stepping across a river and searching for the stones. This text seems to be an appropriate mid-range step for helping to refine your understanding, particularly as already suggested, after reading Lui and several key writings on Chinese culture, history and philosophy.

Tian's book is markedly different from the other two texts; to some extent it can be considered an optional read that is specific to the needs of larger trans-national business managers. While there is certainly significant value to be derived from his insightful discussion of stratagem, much of the text is dedicated to the larger business and the applicability of traditional international business theory to the Chinese setting. In line with the stepping stone metaphor, Tian can be considered one of those stones near the shore that some can choose to jump over knowing that at worst they may get a little wet, but are unlikely to put themselves in any great jeopardy. But as holism is an important attribute of the Chinese, it may be better to think of our analysis in terms of two being better than one, and three being better than two. Tian has its own unique elements. When combined with the other two texts, it will make the *lǎo wài*'s river crossing much less difficult—though in China we can never say easy.

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## Notes

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