

# DOING BUSINESS IN CHINA -- A Cultural Perspective

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## *Outward and Inward FDI (billion USD)*

	2003	2007	2008	2009	2010	2011	2012	2013	2014	2015
Inward FDI	53.51	74.77	92.40	90.03	105.7	116.0	111.7	117.6	128	136
Outward FDI	2.85	26.5	52.15	43.3	68.81	74.65	87.8	107.8	103	145.5

2015, among all OFDI, 87.7 billion USD was spent for acquiring foreign firms.

For the first half year of 2016, outward FDI reached 88.86 billion USD



## There are many companies earn a lot ...

- Toyota, Volkswagen, GM
- Siemens
- Bosch
- Bayer
- Philips
- Decathlon
- Uniqlo
- Ferrero
- ...



## But also many are failed in China

- E-Bay
- Best-Buy
- Home Depot
- Piaggio
- Peugeot 505
- Mark & Spencer
- .....





## *Kellogg was Marketing Cereal in China, but failed*



- 1995, Kellogg opens a plant in Guangzhou, China, but failed due to a lack of understanding of the marketplace.

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## WHY CULTURE MATTERS?



**Lot of failures are caused by the lack of understanding of cultural differences**



## *Where does Culture Matter in business ?*

- **What and how to sell in China?**
- **Communicating and negotiating with Chinese**
- **Managing People and Business in China**
  - Strategy
  - Organization
  - Human Resource
  - ...

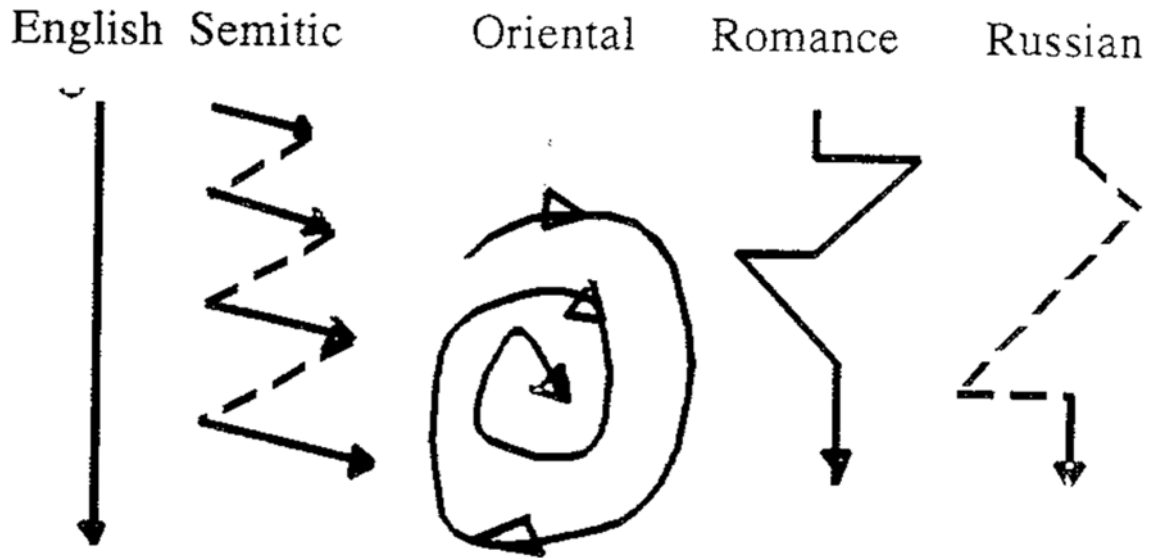
# COMMUNICATION & NEGOTIATION WITH CHINESE

## Gudykunst & Ting-Toomey(1988): Verbal styles

Country	Direct vs. indirect	Elaborate vs. Succinct	Personal vs. contextual	Instrumental vs. Affective
United States	Direct	Exacting	Personal	Instrumental
England	Direct	Exacting	Personal	Instrumental
Australia	Direct	Exacting	Personal	Instrumental
Canada	Direct	Exacting	Personal	Instrumental
Sweden	Direct	Exacting	Personal	Instrumental
Denmark	Direct	Exacting	Personal	Instrumental
CHINA	Indirect*	Succinct*	Contextual*	Affective*
Japan	Indirect	Succinct	Contextual	Affective
Korea	Indirect	Succinct	Contextual	Affective
Egypt	Indirect	Elaborate	Contextual	Affective
Saudi Arabia	Indirect	Elaborate	Contextual	Affective



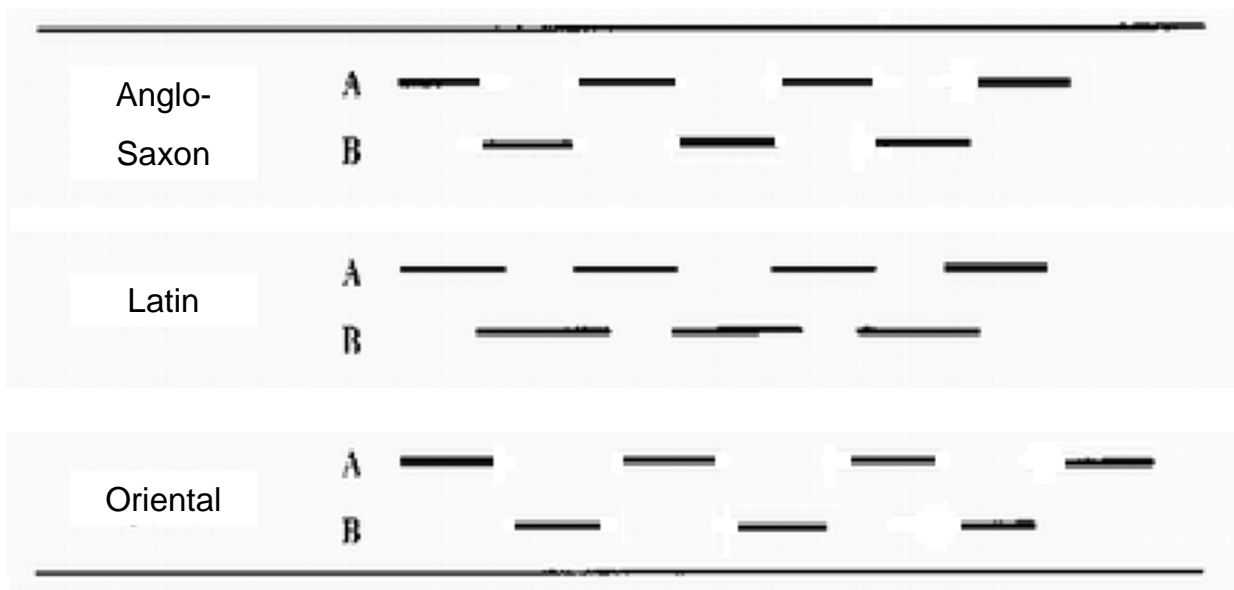
*Kaplan (1966) : Styles of paragraph development:  
Way of communication*



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*Sequence of communication (Emotional vs. Neutral)*



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# *Forms of nonverbal communication*

Show film Cenci in Cina from min. 5 to 12.

Kinesics	Communication thru body movement, including facial expression, gestures, and posture
Oculesics	Communication thru eye contact and gaze (it is good manners to look the other person in the eye during conversation; in the East, people in low position may not look their superior)
Haptics	Communication thru the use of bodily contact
Proxemics	Communication thru the use of space (public distance is shorter for Latin American and middle eastern, and Japanese is larger than American)
Chronemics	Communication thru use of time within a culture: monochronic time vs. Polychronic time (Latin America and Middle East)
Chormatics	Communication thru the use of colors (Bridal dressing in China is traditionally red, which is white in North America and Europe. Yellow Rose means "I don't like you".)

**MANAGING PEOPLE ACROSS CULTURES**



## Work Ethics

- “The more they are paid, the more they will work “?
  - Chinese university students, 66.8%,
  - Brazil (33.3%),
  - Germany (22.3%)
  - Italy (27.4%)
- “One should always do one's best in his work without regarding the payment”
  - Brazilian students: 88.9%
  - Italian students: 87.3%
  - German students: 43.5%
  - Chinese students: 23.8%
- Risk of having more dummy employee in Chinese org.

2017/1/15 !!!



### Example in One International Hotel in Shanghai

- Chinese Property owner: need to lay off some senior employees.
- British General Manager: Why? Those employees know their work better and have better skills!
- Problem: Cross-cultural Communication?



## Leadership: André Laurent's Study in 1980s

Positive Responses	'Most organizations would be better off if conflict could be eliminated for ever.'	'It is important for a manager to have at hand precise answers to most of the questions that his subordinates may raise about their work.'
<b>Sweden</b>	<b>4%</b>	<b>10%</b>
USA	6%	18%
UK	13%	27%
Germany	16%	46%
Switzerland	18%	38%
Denmark	19%	23%
France	24%	53%
Belgium	27%	44%
<b>Italy</b>	<b>41%</b>	<b>66%</b>
<b>CHINA</b>	<b>??</b>	<b>??</b>

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## Way of Thinking, Confucianism and the Leadership in China

	Way of Thinking	Confucian Teaching
Chinese Culture	Visualisation Analogy	<ul style="list-style-type: none"> <li>➤ Rationalism / Intellect is appreciated.</li> <li>➤ Credentialization brought by 1000 years tradition of state examination</li> <li>➤ A ruler should undergo a painstaking study to form a moral righteousness and high intelligence in order to govern people.</li> <li>➤ Governing with morality.</li> </ul>
	↓	↓
Requisites for a Leader	A role model for his/her subordinates	<ol style="list-style-type: none"> <li>1. <b>Administration - technique competence:</b> A leader is expected to be an expert in any aspects of his/her fields of work.....</li> <li>2. <b>High Morality:</b> Righteousness/Fairness/Diligence/ Taking care of subordinates.</li> </ol>

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Case Analysis

# A JAPANESE COMPANY IN CHINA



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## Background of that company

- It is a company that has ~39000 employees, of which 15800 are in China.
- Its sales revenue is around 847 billion Japanese yen (円) for the financial year of 2015.



## Employee Engagement Survey Result

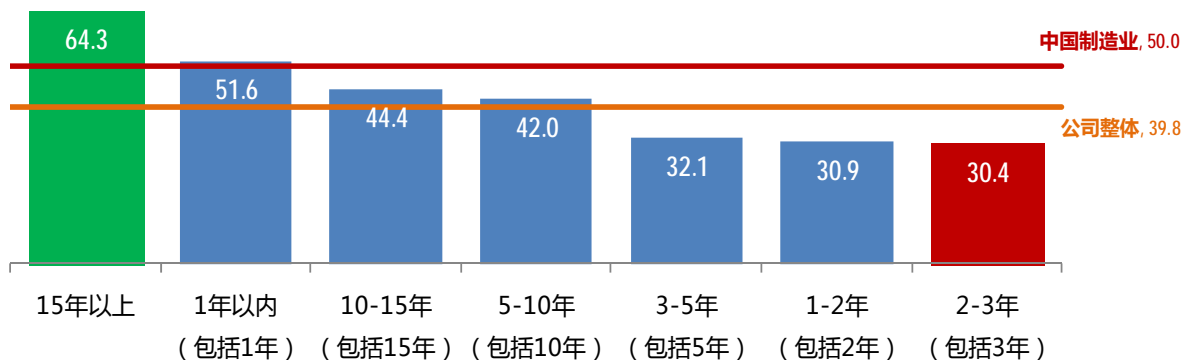
Survey Questions	Positive Answer	Compare to Norm
我的報酬與我的工作付出相匹配 <b>I am paid fairly for the work I do</b>	39.8%	-10.2%
我對公司的福利感到滿意。 <b>I am satisfied with the benefits I receive at this company</b>	56.3%	+12.3%
根據公司的薪酬制度，工作表現優異的員工能夠得到獎勵。 <b>The compensation plans of this company reward outstanding job performance</b>	57.5%	+2.5%

974 people invited and 927 people participated the survey

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### 'I am paid fairly for the work I do' — break down by length of service in the company

#### 我的报酬与我的工作付出相匹配



Number of people with more than 15 years of service:  
58 people, 56 participated survey.



# I. The 4 Pillars of Japanese HR Management

- A) Long-term employment (終身雇用)  
*shu shin ko you*
- B) Seniority-based promotion & compensation (年功序列)  
*nen ko jo retsu*
- C) Company-driven employee training programs (人材育成)  
*jin zai iku sei*
- D) Trade/Labor unionism (企業別労働組合)  
*ki gyo betsu ro dou kumi ai*



## Problems

- It is a sales & marketing oriented company.(企業文化)
- Ethic issue in China: Senior people may work less hard.  
“45岁以上且不在领导岗位的工作人员往往”叫不动”  
、“使不得”。

### Seniority System



#### •Advantages

- Balance between younger and older workforce
- Stable workforce, because younger employees first earn very little
- Little animosity between employees
- Employees do not worry about demotions and salary reductions
- Employees can calculate income

#### •Disadvantages

- Not very competitive, does not necessarily motivate employees
- More effective when the company is in a field with little variety in work contents
- Does not allow much flexibility in increasing the number of employees (older employees are very expensive)
- Motivation problems

# WHAT AND HOW TO SELL IN CHINA?



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## *Marketing Mix: 4Ps*

- Developing a **product** that satisfies those wants and needs
- Designing a **promotion** program that conveys the value of that product to customers
- Choosing a distribution program (i.e., **place**) that makes that product readily available
- Designing a **pricing** strategy that simultaneously creates a consumer's incentive to buy that product and the firm's incentive to sell that product

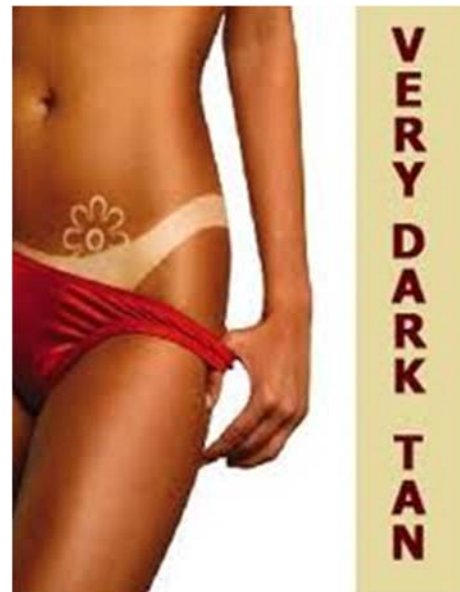


## *Product and service*

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*Many of you from the West like this!*



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*However, Can we sell these Products in China?*



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*What will Chinese do in summer ?*



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*and...*



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*So, Asian peoples like these...*



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## Consumer behaviors & buying habits II

- Wv'S AUDI cars for Chinese market are usually Long-Version! Audi A4L, A6L, and A8L.



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Globaliz

[zboqc.com](http://zboqc.com)



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## Do consumers in China like this car?





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## Le macchine italiane in Cina?



- Ha venduto 21400 macchine in 2015, e dal gennaio al ottobre hanno venduto solo 7300 pezzi.

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# TOYOTA Camry



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# Reiz = Mark X



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# Sales of Toyota cars in China

Brand	2014	2013	2012	2011	2010	2009
TOYOTA Reiz (Mark X)	40,782	64,553	59,846	65,422	51,784	44,287
TOYOTA Camry	95,616	155,391	240,900	154,703	161,412	156,229

Data Source: <http://data.auto.sina.com.cn/>

## Quale si vende meglio in Cina?



An Italian Shoe company



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*Promotion*



## Brand-naming: Nike Skateboarding Brand and products



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## A Great Error



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## *Brand-naming and translation*

- Coca Cola is introduced in China in 1927, but was translated in “蝌蚪啃蜡” ( ke ke kan la), literally means “Tadpole bits wax”.
- Estee Lauder’s Country Moist cosmetic was originally named Country Mist.

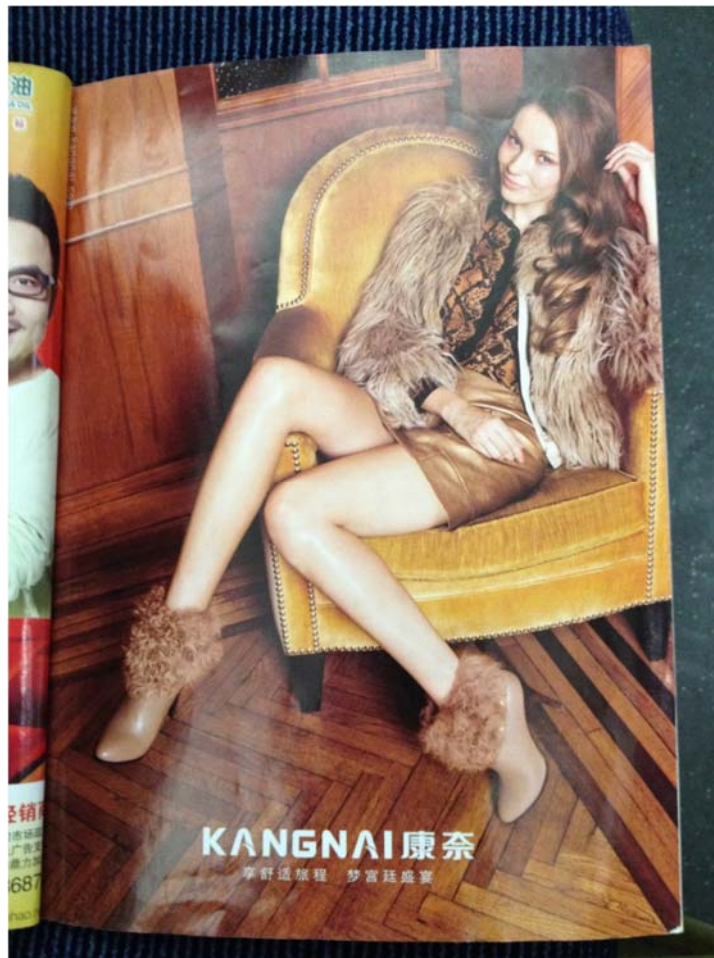


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## *Culture and Advertisement*

- Ad in Collectivism culture will have more team oriented scenes.
- Ad in High power distance will have more scenes reflecting status inequality.
- Highly evaluated ad in low-context culture might be seen as cold and arrogant, while ad for high-context culture may be regarded as not get the “key points”



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## *Different Culture, Different Channel*

*Story of Vichy Cosmetics in China*

**BISOGNO CAPIRE MOLTO BENE CHE COSA I  
CONSUMATORI CINESI VOGLIANO E COME POSSA  
PROMUOVERE I PRODOTTI IN CINA.**

**STRATEGY OF MANAGING CULTURE DIFFERENCE**

**--- THE CASE OF UNIQLO**



## UNIQLO's Original Business Model

- Roadside location store, started in Yamaguchi Prefecture in 1985
- 1998.11 The first urban store opened in Harajuku, Tokyo.



### Competitive Advantages:

- Low cost
- Basic clothes, mainly underwear
- High Quality, from Technology (with Toray) and manufacture



## Enter into Chinese market in 2002, but it was a disaster ...

- Completely copy the core business model from Japan.
- Stores are in suburb areas.
- In order to keep Low cost, use low quality materials



## Pan Ning's practices in Hong Kong

- Pan Ning was appointed as the store manager, and he opened the first UNIQLO Hong Kong store in the Tsim Sha Tsui shopping district in Sept. 2005.



### His strategy:

- pricing the product 10-15% higher.
- Same quality same design, same material
- Stress service quality of Japanese style



## Uniqlo's successful story in China

- Pan Ning was appointed as the GM of China
- He followed his strategy in Hong Kong market. Re-opened store in 2006 in Shanghai and then in Beijing in 2008.
- Currently he opens 80 stores a year in Mainland China.
- UNIQLO Greater China generated revenue of ¥304.4 billion (+46.3%) and operating profit of ¥38.6 billion (+66.1%) in fiscal 2015 ( accounts for 89.1% of the overall overseas profit!).

Year(By End of August)	2009	2010	2011	2012	2013	2014	2015	2015-9-30
Store Number	22	54	80	145	225	305	387	396

# Price in Japan



WOMEN / パーカー&ブルゾン  
WOMEN ライト  
ポケットブルゾン  
ジャケット+E

マットな質感がスタイリッシュ  
ユナポケットブルゾン。ス  
ポーツシーンはもちろんです  
が、トレンドのスポーティな  
スタイリングをまと...

+ つづきを読む

¥2,990 +消費税  
商品番号: 161496

値下げ商品

商品画像

この商品について

カートに追加

・カラーを選択  
カラー:12 PINK

・サイズを選択  
サイズ:

はじめてのお客様へ  
在庫について  
予約商品について  
お支払いの方法について  
ゆう/ケットについて  
返品・返金・交換について

2990Yen/20 =  
149.5元  
Include tax  
3229Yen/20 =  
161.45元

# Price in China



UNIQLO

女装 轻型便携式茄克 161496 优衣库UNIQLO  
原上市价格 399元

价格 ¥249.00  
本店活动 满200元,包邮

运费 上海 至 杭州 快递: 7.00

月销量 114

尺码 155/80A/S 160/84A/M

颜色分类

数量 1 件 库存83件

立即购买 加入购物车

服务承诺 按时发货 支付方式

2990Yen/20 =  
149.5元  
Include tax  
3229Yen/20 =  
161.45元



## What can we learn from this case?

- Directly copy of business model from Japan failed in China!

Synergy brings success:

- Keep something meaningful to China Market:
  - Same product and same quality (materials, design).
  - Service (even stressed)
- Adaptation: higher price to differentiate it from local competitor. Good brand Image, better potentials for further development. Shop in CBD, big flagship stores, high price



## Success Story Continued

- In Nov. 11 on-line sale, UNIQLO sales reached 100 million RMB in less than 4 minutes, and its total sales in that day is more than 600 million RMB, which is the largest among all garment brands.





## Consumers' comments

- 去苏州印象城购物中心体验三大服装零售商的服务品质，zara款式最新（毕竟你我都懂）做工最烂服务中庸，H&M款式中庸质量中庸服务呵呵（我看了半个小时衣服没人理我），优衣库款式落伍质量比前者两个都好服务到位（在优衣库购物心情愉快）。
- Zara: good fashion, low quality, mediocre. Service
- H&M: mediocre in fashion, quality and service
- Uniqlo: Old style fashion, higher quality than other two brands, good service (happy for shopping in Uniqlo)

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CULTIVATING THE HEALTHY POWER LEADING THE FUTURE OF CHINA

# Thanks



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