

Mastering the Art of Doing Business in China

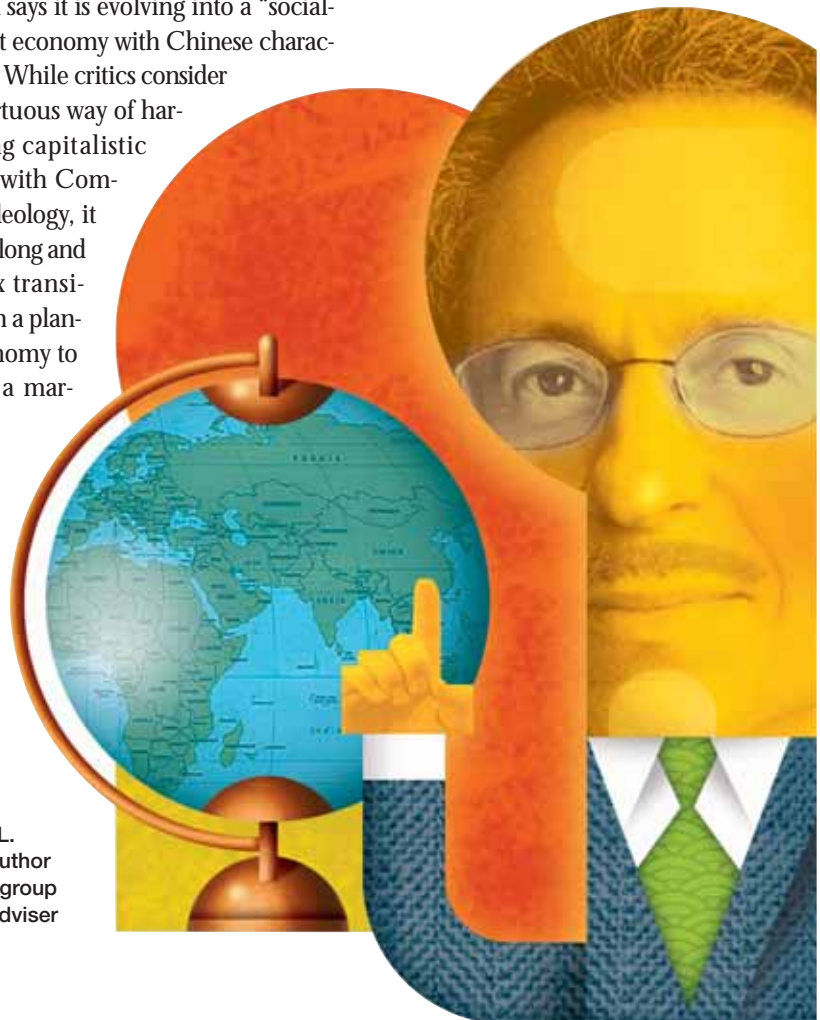
Not enough CEOs know how to play the game to their advantage. BY ROBERT L. KUHN

Of all the challenges facing chief executives, getting China right is one of the most important. But many CEOs assume they can do business in China the way they do business in other countries. They cannot. If most business is local, most business in China is also political.

China says it is evolving into a “socialist market economy with Chinese characteristics.” While critics consider that a tortuous way of harmonizing capitalistic practice with Communist ideology, it reflects a long and complex transition from a planned economy to more of a mar-

ket economy. Figuring out how to navigate this transition is obviously complex.

Foreign executives are usually naive. Few are even aware of the relevance of politics, much less know how to play it. When they envision the “Chinese government,” they see a monolith, displaying an idealism that’s laughable to the Chinese. Foreigners are often not aware of competing interests among central, provincial and municipal levels of government, and



Robert L. Kuhn, author and Citigroup China adviser

on each level among diverse commissions, ministries, agencies, departments and bureaus with overlapping interests of turf and power.

On the personal level, lack of awareness is often worse. Foreign executives imagine that if they have a pleasant meeting with the CEO of a state-owned company, or surely if they are encouraged by a government official responsible for that industrial sector, then they have a high likelihood of achieving their goals. They do not appreciate the disparate personal loyalties that thread through most Chinese organizations, or customary mechanisms of decision-making that usually require agreement at multiple levels. In many organizations, someone quite low in the power structure, someone surely unknown to the foreigners, may maintain effective veto power.

In one case, the CEO of a Chinese state-owned partner in a joint venture was, unbeknownst to the foreign partner, locked in a long-standing political struggle with his government boss, a personal battle that was common gossip around the organization. When the CEO was ousted, the government cut its support for the venture. The foreign partner never had a clue about what was obvious to everyone else.

Using Powerful Tools

Politics, used properly, can be a powerful tool for getting deals done and keeping joint ventures on track. In structuring one very large joint venture in China, a European manufacturing multinational found itself at a standstill after protracted negotiations. It decided to take a risk by inviting the most senior provincial leader—the Party secretary—to participate in the discussions. Involving the senior leader directly could be ill-advised because there's typically no appeal of whatever decision he makes. However, the foreign company had done

BEST PRACTICES

Kuhn on the Do's and Don'ts

▶ **Conduct (quietly) analyses of those you're dealing with.** Assess political factions and alliances between individuals within government agencies, partners, suppliers, customers and competitors who can affect your business.

▶ **Build relationships with key people, personal as well as professional.** Discern their real objectives and understand their background—education, hometown, family, prior jobs, relationships and aspirations.

▶ **Watch retirement ages.** Do not rely on executives or officials approaching mandatory retirement (the age differs by rank and sector). Successors are likely to distance themselves from predecessors' friends and partners.

▶ **Cater to the most senior executive or official in every meeting.** Chinese organizations are still built on strict hierarchies, and foreign executives must be sensitive to that.

▶ **Align your interests with those of your Chinese partners and managers.** Structure and organize your business to be as self-regulating as possible (as if there are neither legal contracts nor internal controls).

▶ **Awareness is critical.** Once politics are understood, companies can utilize reputable advisers—professionals with long experience in China whose track record and relationships can be independently assessed. Beware of charlatans claiming to be related to a government official.

▶ **Seek natural allies.** Identify institutions and individuals who will benefit from your success and seek to engage them. Similarly, identify any who will benefit from your failure and seek to neutralize them.

▶ **Don't neglect any level of government—central, provincial, local.** All but the very largest businesses depend on the support of local and provincial government, and that support (or lack of hindrance) is often instrumental in corporate success.

▶ **Don't underestimate the importance of personal relationships.** China is changing, but personal relationships (*guanxi*) continue to play a role in generating trust and assuring loyalty.

▶ **Don't overestimate the importance of personal relationships.** In other words, don't rely on any one person in a Chinese institution, government agency or state-owned business—not even the top person. People get promoted, demoted or transferred, sometimes suddenly.

▶ **Don't think that if the boss agrees, the deal is done.** Organizations, particularly government agencies and state-owned enterprises, often have multiple lines of allegiances that even CEOs cannot overrule.

▶ **Don't assume that all Chinese are on the same side.** Chinese people, like all people, are interested in their own private careers, opportunities and financial benefits.

▶ **Don't forget Chinese history,** particularly as it may affect the attitudes and sensitivity of people who affect your business.

▶ **Don't depend on a change in law or regulations.** Politics are complicated, mired in competing interests. Time estimates for government action can mean little.

▶ **Don't assume that a contract will protect you.** China is serious about operating according to rule of law, but it is not there yet. Personal relationships and business importance come first; contracts come second.

its homework and knew that in the Party secretary's previous position (in Guangdong province), he had shown great innovation.

The gamble worked. To this day, the Party secretary speaks of this high-profile, successful deal as a source of personal pride.

In a case that highlights the importance of personal relationships, a Japanese multinational sought entry into an industry requiring a special license by engaging a large state-owned conglomerate in a similar industry as its partner. After months of futility, the Japanese executives realized that although their Chinese partner was in their same industry, it was less powerful than the Chinese partner chosen by the Japanese company's chief international rival. As a result their license application was being blocked.

After doing sensitive political analysis (using politically savvy consultants), they were introduced to a much smaller Chinese company in a different industry, but one whose executives had deep personal relationships, going back to college, with key regulators. The Japanese then got the license.

Obviously, foreigners cannot discern all the politics swirling around and within Chinese organizations, and indeed most foreign executives do business in China without ever appreciating it. What happens, though, is that the politically naive never understand why their deal is delayed or aborted—or how negotiations can be facilitated, problems averted and issues resolved. ▲

Robert Lawrence Kuhn, a senior adviser to Citigroup China, is the author of *The Man Who Changed China: The Life and Legacy of Jiang Zemin* (Random House, 2005), the best-selling book of the year in China.