

# Conducting Trade with Chinese Family Businesses

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## ABSTRACT

Starting in 1978, family businesses changed significantly as a result of Chinese economic reform from a planned to a market economy. Opportunities now exist for Western companies to conduct business directly with these family businesses with significant favorable profitability prospects for all parties concerned. The Chinese culture and family business functions are undergoing major change with emphasis being placed on practices to increase wealth, which often encourages expanding trade with the West. To conduct business successfully in China, it is critical to understand the culture of this Asian society and the unique operating paradigm in family businesses.

**KEYWORDS:** Family Business, China, Culture, Economic Reform

Family businesses are changing as a result of the economic reforms in China. In 1978, the communist government commenced experiments with a limited number of market economic practices in the agricultural sector. Expansion into a market economy with Chinese socialism has been dramatically achieved over these past 25 to 30 years. International trading opportunities now exist with thousands of Chinese family businesses desiring expansion into Western markets and Western companies looking to potentially taking advantage of trading with the 1.3 billion Chinese consumers. As a result of the demise of a totally planned economy, a new Chinese culture is evolving and Chinese family businesses have undergone major changes in commercial functions and practices. When conducting dealings with family businesses, consideration must be given to the changing culture and these changing practices in order to ensure relationships are developed for successful negotiations.

The authors have conducted business in China for many years had considerable business experience in dealing with Chinese family businesses. Many of the observations included in this article without specific references are based on the experience of the authors either living in China or through international consulting.

We commence the article with an examination of the family business functions and practices, describing changes that are occurring as a result of the Chinese economic reforms. Forms of ownership, management functions and leadership amongst other business aspects and the evolving Chinese culture are reviewed with the implications for Western businesses identified. Finally, a summary of some of the most important aspects of dealing with family businesses is provided. We first look at the changing family business functions and practices.

Chinese family businesses are undergoing major change with the transition from a planned to a market economy, which commenced in 1978. The authors examined selected

business functions and the differences in practice between Chinese and Western small family businesses and they specifically include: forms of ownership, planning, controlling, leading, and organizing, employee relations, marketing-promotion, financing, ethics, and legal.

*Ownership.* Family business ownership in China is dominated by sole proprietorships. Family owned and operated businesses are common in both urban and rural settings. It is especially common in the rural areas where life is often harsh (Kristof, 1994) and a family owned plot is managed by the father and is cultivated by the wife and children. Succession is clear in this culture because when the parents become unable to manage, the eldest son assumes the responsibility (Yan & Sorenson, 2006). The Communist government attempted to manage the agricultural sector until the late 1970s (Shenggen, 2002). Upon allowing private ownership of the plots, production increased dramatically. Jinglian Wu, a well known Chinese economist stated the increase in rural output growth was 48.6% from 1978 to 1984 (Wu, 2005). The family, not the collective, reaped the benefits. These dramatic increases were due in part to profit incentives and from the desire of the farmers to take care of the family. Family is powerful in Confucianism (Y. P. M., 1986) and taking care of one's family and subsequently taking care of elderly parents becomes paramount (filial piety). Ownership of urban retail and small factory businesses are also dominated by sole proprietorships(Wu, 2005). Generally the father is the top manager and the children work their way up through the company to be the chief accountants, production managers and/or marketing managers. It is common for young factory workers to migrate to the urban areas, to live frugally, and send money home to take care of the family, especially when the remaining family members come from poor rural areas (Saxon, 2007). As some of the businesses grow, occasionally partnerships may be formed. The authors have observed that these partnerships are sometimes only handshakes, with *guanxi* being the

basis for the relationship with no formal documentation ever being developed. Guanxi is the term meaning relationships or connections and is explained further later. Family businesses are generally sole proprietorships and are rarely converted to partnerships or small business corporations, as is often the case in the United States. These sole proprietorships conduct the classic management functions with their own Chinese variations.

*Management Functions-planning, controlling, leading, organizing.* The planning in family businesses is often haphazard or non-existent, which has been noted by the authors. This is not unlike many Western businesses, but it is the norm in China. The matriarch or patriarch responds to what needs to be done and does whatever is necessary to ensure the business survives and hopefully prospers. It is common for the business owner to mainly perform short-term cash flow planning with little evidence of formal long-term considerations. Most control mechanisms in family businesses are held tightly by the owner/manager. As in Western business, the owner/manager is constantly present on the premises and remains in control of all of the functions of the business. It is expected by the employees that the matriarch or patriarch will monitor virtually all activities of the business. Closely associated with control is the leadership function.

Most leadership in Chinese business is dictatorial and the owner is the boss (McGregor, 2005). The owner/manager is responsible for motivating, assigning, explaining, and clarifying policies for the employees. The authors found Douglas McGregor's Theory X leadership style to be common and the employees respect the leader when they are successful. Leaders motivate the workers more by the threat of loss of jobs than by perks, however, labor shortages in the cities has ameliorated these threats to some degree (Wiseman, 2005). The leader assigns, explains routines, and dictates policy. Teams are formed in some business and their groups are influenced

by Chinese culture (Hofstede, 1991). Proper management of those teams is imperative as Qu (2005) suggested. More senior managers or top management provide training for leaders, which tends to be toward quantitative business functions, rather than developing personal relationships (Ellis, 2004). Communications are from top down with reprisal for negative feedback inhibiting upward communication. This is not to suggest that the leaders are malevolent; on the contrary they are interested, as in the West, in obtaining and keeping the best employees. As a result of economic reform, motivation is provided primarily through salaries, which has substantially increased for good employees.

Important and not so important decisions in family business are reserved for the top leader/manager (micro-management abounds) as observed by the authors. As businesses grow, delegation of authority trickles down very slowly. Two major factors apply. The top manager is looked upon as all knowing and acts accordingly as a mother/father figure. Thus decisions are made at the top level. Mid level managers are reluctant to take responsibility as they often have not been trained in management and do not want to be blamed for a bad decision. It is easier to pass the question/problem up to the boss. Make it clear to managers that they must adhere to company policies, as there are some tendencies to ignore rules that may not be completely understood. Since family businesses often operate without any written policies, employees may take advantage of the situation if the matriarch or patriarch is not vigilant.

Family business organizations are vastly different from the State Owned Enterprises (SOEs) which are typified by numerous levels of hierarchy (Benson, 1999). The authors have noted that small family businesses are flatly organized with staff positions often occupied by family members. It has been observed that small business leaders may have 15 to 20 direct reports and with an “auntie” acting as an assistant manager. There is little need for many levels

of decision makers when most decisions are made at the top, which is often the matriarch or patriarch.

*Employee Relations.* It is noted by the authors that employees work in Maslow's (1969) hierarchy of needs at the physiological and safety levels and to some extent the social level. Rarely would employees work at any higher level. Higher status (face) is important and is accomplished through promotions. Work goals among managers are different from the West (Ronen, 1987). Bonuses are sometimes more important to Chinese employees than to American employees in the information technology field (Bu, 2005). When the company provides adequate wages to maintain the welfare of the workers' family, fear of unemployment has been a paramount concern. Terminating employees is often problematic and local authorities or a trade union may become involved. The Communist Party substantially controls trade unions (Warner, 1991) with few trade unions found in family businesses. Chinese workers tend to be more capable of performing monotonous activities than American workers. Small family businesses sometimes grow, as they are specially suited for providing these types of jobs.

*Marketing.* Many marketing promotions are conducted through the same basic media as Western businesses in newspapers, magazines and television advertising. Care must be taken to ensure culture is taken into consideration. Nike has learned a lesson in what not to do ("Nike faces china ire over 'fear' ad." 2004). General Motors has learned to take advantage of cultural differences in their advertising (Wentz, 2003). Other companies such as KFC and McDonald's are advertising and selling products that meet cultural expectations (Jianghong, 2004). Small Chinese family businesses have not generally adopted a customer service orientation. Be prepared for complaints to go unheeded.

Chinese are often thought of as being exceedingly patient in their negotiations (Saxon, 2007). While Americans tend to think in an either/or framework, the Chinese tend to think in ideas of both sides winning or losing. Today, the younger business operators are not so inclined, however, in conducting trade, be prepared for the haggling type negotiations. Avoid getting your Chinese counterpart in a situation that establishes a fixed price for a product or service that would cause them to lose face if they backed off their position. Leave room in your opening proposal for less important items to be conceded for face saving purposes.

*Ethics.* Business ethics and customs are different from the West. While giving gifts is appropriate in the West under certain circumstances, giving gifts to Chinese businessmen and women is common and is considered ethical (Chan, 2003). Western business might consider such a practice as bribery. It is considered bribery in China when someone tries to persuade another to perform an illegal act. Gift giving is a custom and part of guanxi ("Cultural advice", 2003). Gifts should be accepted with both hands and will often not be opened until later with gifts made in America are especially appreciated. The authors have observed small business owners providing "guanxi" gifts to business associates and officials, which was deemed appropriate by the giver and the receiver. While the gifts were not overly expensive by Chinese standards, the owner was showing his respect for the recipient's importance to him.

Technology based industries are becoming a substantial portion of the Chinese business and the employees are learning fast (Sheff, 2002). Copying intellectual property (IP) has not been considered unethical (James, 2004). Many Chinese believe that intellectual property belongs to society as opposed to the individual. Accordingly, it is prudent to protect company confidential information to the extent practical and a legal confidentiality agreement may minimize the likelihood of loss of IP rights. Closely associated with IP, is counterfeiting, which

is a quite common practice in China. Care must be taken to ensure dealings are with reputable firms, who may also be fooled by counterfeiters.

Negotiation practices have ethical implications. When negotiating with Chinese business people, the truth is often elusive (McGregor, 2005). According to Lam (2003), “Chinese think in terms of the whole while Americans think sequentially and individualistically, breaking up complex negotiation tasks into a series of smaller issues: price, quantity, warranty, deliver, and so forth. Chinese negotiators tend to talk about those issues all at once, skipping among them, and, from the Americans’ point of view, seemingly never settling anything.” (P.88). Chinese often view agreements as a list of intentions at the beginning of the trade and expect to interpret items not specifically covered in a contract at a later date. If circumstances change, the Chinese business, person may believe the contract is no longer valid unless it is clearly spelled out that the contract remains in effect even when circumstances change. It is prudent to define all aspects of an agreement as well as possible to preclude surprises later. A simple contract or letter of intention is adequate for most dealings. Chinese are generally expressionless when negotiating and Americans tend to show happiness or frustrations in discussions. The Chinese consider this display of emotions as childish (Saxon, 2007). Understanding the effects of nationalism is also needed in today’s negotiations (Shi, 2003).

Guanxi, as a major facilitator of doing business, has encouraged corruption, which is a major problem for the Chinese government and business (Studwell, 2002). Pursuing relationships with government officials opens doors but may be illegal. Strict government penalties for corruption have not deterred those who are seeking fortunes. There are indications that quanxi established with government officials may not be as important as in the past but must still be considered when doing business in China (McClenahan, 2004). Corruption is rampant in

China. The government's Central Disciplinary Inspection Committee reported that the organization considered 1.6 million possible instances of corruption in one year (Studwell, 2002).

Accounting practices are often deemed unethical by Western standards. It is not uncommon for a business to have multiple sets of books (Saxon, 2007). One set may be for the government, another for the bank, another for investors, and another for the business owner. Be aware of which books you may be reviewing.

*Legal.* The legal system is vastly different in China from the West. According to Jinliang Wu, (2005) "China does not have a tradition of the rule of law."(P.426). It is complex and is often used by authorities to approve or disapprove business transactions. Meeting of the minds in the West is concluded through written contracts. In China, meeting of the minds is achieved through *guanxi* and verbal agreements. Partnerships agreements, personal loans, and other agreements have often been unwritten. The government protects Chinese culture through censorship of the media including advertisements that could appear derogatory to their culture ("Nike faces china ire over 'fear' ad." 2004). China's acceptance into the World Trade Organization and the requirements thereof is changing the legal landscape. The Chinese government has created laws for virtually everything, as do most governments (Sintro, 2001). A well-defined legal system continues to be developed by the Communist government and the impact is being felt throughout the business enterprises and society (Guthrie, 1999). Economic reform has brought on an onslaught of revised rules and regulations, some of which are vague and sometimes conflicting, which is not a major problem with the ambiguity allowed in Chinese culture.

The aforementioned business functions are affected by a changing Chinese culture. We review in this next section some important aspects of Chinese culture and how they impact dealings with family businesses. We first review some of the major tenets of Confucianism, which provides the backdrop to understanding Chinese culture. Then we examine the importance of guanxi (connections) face, and feng shui, which are cultural phenomenon often encounter in family businesses. Buddhism, Taoism, I Ching, and other lesser aspects of the Chinese culture are briefly mentioned for completeness of understanding as they could affect family business dealings.

Businesses around the world are affected by the traditions and cultures, which surround them and major changes in the economic structure of China are impacting the culture of this ancient society. Culture is the customary beliefs and social norms of a group or society. Chinese culture is an ancient one dating back to more than 4000 years and is evolving as economic reforms have been instituted over the last 25 years ("Are western festivals undermining chinese culture?" 2004). The Chinese people are proud of their culture and generally desire to limit change by Western influence. China is a country slightly smaller than the United States and has a population of more than 1.3 billion people ("The world factbook", 2007). The culture is far from homogenous. With 23 provinces, each with its own language, cultural diversity abounds. However, certain aspects of culture are predominantly Chinese in nature, including Confucianism, guanxi, face, feng shui, along with Buddhism, Taoism, I Ching, and other cultural beliefs. We first examine Confucianism, which provides much of the basis for understanding Chinese thought.

Confucianism is a major Eastern philosophy, dating back to 500 BCE that stresses the proper relationships in society, such as father/son and subject/ruler. Confucianism permeates the

fabric of the society and impacts how business is conducted, thus a limited understanding of the tenets of Confucianism is important when dealing with businesses in China. First we will look at significant historical elements of Confucianism and follow with a discussion of key virtues and how conducting business with Chinese family businesses is impacted.

The virtues of Confucianism are a compendium of the writings of Confucius and numerous disciples have added to the ideas of Confucius and are chronicled by the books of Peter Bishop & Michael Darton(1987), C.Scott Littleton(1996), and David & John Noss(1984).

The teachings of Confucianism have influenced virtually all elements of Chinese culture such as art, architecture, science and literature (Newman, 2005). Paintings and bronze sculptures often depict family and nature. The great wall and palaces such as the Forbidden City, which was completed in 1422, and the Temple of Heaven are indicative of advanced architectural knowledge. Scientific knowledge was supported by the concept of wisdom. The Chinese invented paper, printing, gunpowder, sundials, seismographs, and the compass, which are but a few their scientific discoveries.

Although Confucianism continues to influence the Chinese society today, Mao Zedong, along with the Communist Party, officially stated that Confucianism was out of favor (Ambler, 2000). Mao himself actually thought that there was room for certain aspects of Confucianism in the Communist state (e.g. righteousness), if it suited his purpose. However, filial piety (care and love of parents) was problematic since society, according to Mao, should take precedence over family, and loyalty to family should be replaced by loyalty to government. While the Communists outlawed the teaching of Confucianism, the ingrained values in the Chinese society were never eliminated.

Confucianism is experiencing a new resurgence according to some studies, including a business survey by the authors. Its practice is evident in large and small businesses in China and continues to affect society. From the referenced books, religious writers note six major virtues of Confucianism to be important and are briefly reviewed here (Bishop, 1987; Littleton, 1996; Noss, 1984). Key virtues include compassion, loyalty, filial piety, reciprocity, propriety, and righteousness and their significant impacts to family businesses are reviewed.

First, *compassion* is evident in the workplace as observed by the authors, especially in the rural areas. Family owned businesses are common throughout China with the matriarch or patriarch often caring for the employees and providing for their shelter, food, and other necessities. Their compassion sometimes allows grievous errors (at least in your opinion) to be left uncorrected. Thus, quality control procedures are often left unattended. Care must be taken when pointing out problems with the quality of products or services as “losing face” could be felt and the entire dealings may be terminated.

Another virtue identified by the religious scholars (Bishop, 1987; Littleton, 1996; Noss, 1984), *loyalty*, often results from compassion. Loyalty is a Confucian virtue that is coming under severe stress in the economically reformed China as employees look to improve their job situations by relocating to higher paying jobs. Pressure to better oneself in the market economy has created a major change in the job market. Under the Communists and before, workers remained with the same company from entrance into the job market to retirement. Today, labor contracts are replacing the life-time job tradition of the past, especially in the large urban markets (Guthrie, 1999). Switching jobs is now much more the norm (Alon, 2004), p.76). In China, because of loyalty, small businesses (especially) hire family members to perform many duties to

include those that the family member is not qualified to perform. Nepotism is especially common in small family businesses.

A third virtue, *Filial piety* is evident in China today, with respect for the elderly continuing to be the norm (Fan, 2004). While the degree of individualism is a growing phenomenon amongst the educated younger generations, concern for family remains a dominant characteristic of society as it has for thousands of years (McGregor, 2005). Respect must be shown for the elders who are most often the owners. However the more independent, younger, business associates are more frequently challenging this custom now.

Another virtue identified by the religious scholars (Bishop, 1987; Littleton, 1996; Noss, 1984) is *reciprocity*, which continues to be important as evidenced by the continued manifestations of the importance of *guanxi*. Establishing connections requires reciprocating benefits to both parties in *guanxi* networks. Good *guanxi* (relationships) need to be established before commencement of business if dealings are to be successful. *Guanxi* is explored, in more detail, elsewhere in this review.

*Propriety*, or acting proper, continues to be a relevant factor in conducting business as observed by the authors. Face is important as prestige and dignity is derived from having been given face or one may lose face when derogatory remarks are directed toward an individual. There is some evidence that the character of business is changing with the market economy and the importance of face may be diminishing as the younger workers are becoming more independent; however, face remains very important. With the one child policy having been in place for more than 20 years, today's young people have often established a sense of superiority causing respect for elders to be diminishing and importance of material well being to become an important aspect of society. Business etiquette should be observed much as in the West with

additional attention being paid to respect for the owner who is usually the elder of the family. Proper attire is often important, which is an indicator of your position within your company.

Finally, *Righteousness* is a generally accepted value identified by the religious scholars (Bishop, 1987; Littleton, 1996; Noss, 1984). It is not apparent that economic reforms have substantially affected the Chinese society with regards to the Confucianism virtue of Righteousness. Corruption has been the way of life that it is accepted as the norm. This is not to say that all businesses are corrupt as they are most certainly not. Certain business practices such as gift giving may appear to be bordering on unethical; however these activities are the norm and continue to be observed. It is sometimes said that you have not crossed the line into corruption unless illegal acts are being perpetuated. Corruption has plagued China and there have been numerous attempts to wipe out corrupt officials and business leaders. The Communist Party has espoused a policy of making the society more righteous but corruption continues unabated (Studwell, 2002).

A major cultural aspect of conducting business in China is Guanxi, which means good connections or relationships. Lucian Pye (1992), defined quanxi as friendships with the implication that there will be a continuing exchange of favors. This definition suggests that a continuing interpersonal relationship exists with favors being traded without a contract. In conducting business with Chinese partners, it may be more effective to treat them as friends as friendships facilitate business deals (Dawes, 2005). This aspect of Chinese culture provides the basis for a substantial portion of business deals in China as it has been noted that executives sometimes found businessmen believe that once good guanxi had been established, benefits would follow (E. W. K. Tsang, 1998).

Guanxi continues to be a major consideration in Chinese business. It is noted that in the West, relationships develop after deals are consummated, while in China, deals are only possible after relationships are established (Vanhonacker, 2004). Thus, it is imperative to establish a good personal relationship with family business owners before commencing serious business negotiations. Care must be taken when asking for a recommendation on who might be capable to assist you in some manner. The recommendation is likely to be a guanxi partner who may not be the most beneficial for you. Maintaining relations networks within businesses and with the government is important. As many government officials do not speak fluent English, they may seem unfriendly, but it may only be their nervousness about the language limitations (Saxon, 2007). Do not show your frustrations when you seem to be meeting resistance. Positive attitude and smiles may help overcome their reluctance to be of assistance.

With the economic reforms, some lessening of the importance of guanxi related to dealings with government officials has been suggested. McClenahen (2004) argued three reasons for this decline in importance: The Chinese government's emphasis on the rule of law; procedural safeguards, such as the Administrative Litigation Law and the Licensing Law, designed to curb abuses of power; and the crackdown on corruption. In a 2006 survey, the authors found evidence that guanxi is important and has been on the rise since 1990. In conducting trade, guanxi should still be considered important, as the rule of law remains less important than the rule of man with small family businesses. The financing of family business in China is predominantly through family and friends with guanxi being a key element in obtaining this financing as has been noted by the authors with conversations with numerous small business owners. Questions concerning financing should be avoided as "loss of face" could result and face is an important aspect of Chinese culture, which we now examine.

A pervasive Chinese concept of gaining, giving or losing 'face' is an indication of prestige and dignity, and reflects on the vulnerability of their self-esteem (Ambler, 2000). Woo(1999) indicated that having face is to have high status and prestige in the eyes of one's peers, and it is an indication of personal dignity. Extreme care must be taken to prevent loss of face in personal relations. Complement in public and criticize in private is a human relations adage in the West and it is especially important in China. "Giving face" or complementing an associate, especially when others are present, enhances reputation and prestige and is an excellent means to improve guanxi. Even though there is some evidence that face has lost some importance in recent times according to a survey conducted by the authors, face remains an important element of Chinese society. While Western cultures exhibit certain concerns for face, the emphasis is much greater in the Chinese culture. In addition to guanxi and face, the techniques of feng shui in architecture and relationship are common in China.

Feng shui, a 3000 year old technique, "roughly translated 'Wind' and 'Water'" (He, 2000), p. 213), describes the influence of the environment on human fortunes ("The splash of the cockerel", 1993). According to feng shui practitioners, retail stores and factories can be made more productive through correct positioning of the facilities (Too, 1996). With the major emphasis on construction of public and private buildings, feng shui is a substantial influence in Chinese architecture and its use may be on the rise. Feng shui is often used to determine where a business is located within the city, how office layouts should be arranged, and where the cash registers should be located as well as many other decisions concerning architectural layouts. It is depicted as a guide to residential design and layouts in numerous articles, books and also considered in movies (Hamilton, 1999). It is taken seriously and a series of fatal accidents during the construction of the Jinmao Building in Shanghai were blamed on the building design

with a lack of feng shui consideration as opposed to shoddy construction (Ambler, 2000). Ignoring feng shui principles could be perceived as a sign of ignorance on the part of a foreign business, person. Pay attention to feng shui as the potential small family business associates that you encounter, will (Saxon, 2007). According to the author's 2006 business survey, the importance of feng shui has risen from 1990 to present.

In addition to these cultural based traditions of guanxi, face, and feng shui, religions play a part in Chinese family business dealings. Buddhism is a religion and philosophy dating back to 500 BCE and is based on the teachings of Buddha, Siddhartha Gautama (Ch'en, 1974). Buddhism originated in India and spread throughout Eastern Asia including China, where it was introduced by an Indian monk, Bodhidharma around 500 CE. Only a small percentage of the Chinese population actively practice Buddhism ("The world factbook", 2007); however, the influence of Buddhism in the society exists, along with Confucianism, Taoism and other Eastern religions, which coexist.

As Ch'en (1974) explains, Buddhism teaches that individuals should seek enlightenment through meditation to reach Nirvana, a state of harmony, rest, stability, and/or joy. The noble truths lead to five precepts: Refrain from harming living creatures, stealing, sexual misconduct, incorrect speech, and intoxication. The fruits of this life carry over to the next after rebirth. Practice of Buddhism may impact the conduct of business as making money enables one to do good for others. Buddhism is consistent with the collectivism, which dominates Chinese thinking, so hiring the poor and providing benefits to employees, benefits society and should be pursued. Many small family business owners practice Buddhism as has been observed by the authors in retail stores throughout China. They visit Buddhist temples and celebrate Buddhist holidays. Burning incense, making offerings to Buddha, and meditating may affect business

schedules. Care for employees and others is often observed, which may also reflect the collectivist ideals contained in Buddhism as well as in Confucianism. Buddhism may influence the family business owners desire to meet high Chinese ethical standards and support fair and honest dealings with a commitment to create trust in their relationships. Dealing with family business owners who practice Buddhism can be desirable as they are often open and honest.

Taoism is another cultural aspect that focuses on nature and the natural order (Schipper, 2000) and is consistent with both Confucianism and many of the beliefs of Buddhism. Taoism is an ancient religion of China with history dating back to the 6<sup>th</sup> Century, B.C. Tao (pronounced “Dow”) and is a force, not a person. The Tao refers to a formless non-being and a power which envelopes, surrounds and flows through all things, living and non-living (Schipper, 2000). Taoism emphasizes harmony with nature and within society. This forms a basis in which business should benefit society and greed is discouraged. Businesses should provide the basic needs of society without unordinary benefit to the individual. The tenets of Taoism are consistent with a free market economy ("The ancient art of making money", 2001).

According to the author’s survey conducted in 2006, the importance of Taoism is on the rise in business from 1990 to 2006. It is not clear that this resurgence is related to the change from a centrally planned economy to a market economy or it may be a reaction to a new freedom to again practice religion in China. Concern for gaining material wealth is not a tenet of Taoism but money has become a powerful influence in the Chinese society. The Taoist ideas of doing nothing to govern and keeping still to defeat movement may be coming a more popular thought than occurred during the centrally planned economy prior to 1978. There are few Taoists, per se, but the philosophy is consistent with other Eastern religions, which promote fair and honest trade in business.

There are numerous influences on a society and according to Eric Tsang, all human societies have superstitious beliefs and behaviors that are widespread (Eric W.K. Tsang, 2004a). Chinese cultural beliefs are a part of the Chinese business environment and have been present for centuries. I Ching, consulting oracles, numerology, astrology, and physiognomy are cultural beliefs having limited affects on family businesses. A brief review of these beliefs is presented, which is followed by a brief description of some of the implications for conducting business in consideration of them.

I Ching (Book of Changes) is considered to be both a philosophy and a sacred text or divinity by many (Balkin, 2002). This classic book, written about 2800 B.C., has influenced Chinese culture throughout the centuries. As a philosophy, I Ching centers on helping people to improve character, become emotionally balanced, and maintain personal integrity in a constantly changing and confusing world. The I Ching also presents a divinatory system, which provides the basis for oracle predictions. Consulting the oracle is seeking the advice from Chinese Gods. The authors did not find the importance of I Ching or consulting oracles to be significantly important as a result of moving from a planned to a market economy. In China today, the society is still influenced by the I Ching, but the direct impact to business is quite limited.

Other beliefs have been identified that could influence Chinese society. Calculating Destinies describes how a person's birth day, month, year and hour of birth prescribe the fortune, occupation, family, health, and character of that person (Eftoda, 2005). *Ba zi* (string of eight characters) describes an individual's life profile and may be calculated in different ways rendering different results so that there is not necessarily a consensus of predictions. Numerology is the science of numbers with certain numbers being lucky, while others are not (Madden, 2004). Some businesses may go to great lengths to obtain specific numbers associated

with their image. It is important to society. Lucky numbers should be considered when possible to enhance the image of your company and yourself. Avoid the use of the number four, as it is associated with death. Numbers eight and nine are generally considered lucky and generous use is beneficial. Consider numbers when obtaining business addresses and/or phone numbers.

Cultural beliefs sometimes dictate that financial activities, such as contract signings, are sometimes timed to take place on lucky days and as Eric Tsang recommends (2004b) “accept the date if it does not cause much inconvenience to you.” (P.102). While the influence of numerology exists, the direct impact to conducting dealings with family businesses is limited.

Another cultural influence is physiognomy, which is the study of facial features in describing the character, temperament, and destiny of an individual (Kohn, 1996) and may be considered important when selecting an individual with whom one would want to become partners. In a 2006 survey conducted by the authors, no evidence was found that physiognomy influenced business decisions made by small and medium sized companies, thus the impact to conduct of business is limited.

While conducting trade with the small family business, consideration should be given to these cultural beliefs. While many of these cultural beliefs may not be a significant aspect of any one family, one should take care not to offend a potential partner by actions or by making disparaging remarks concerning these ideas. Superstitious beliefs remain a factor influencing Chinese culture and it is not evident that the economic reforms have substantially affected the belief in these superstitions.

Confucianism, guanxi, face, feng shui, along with Buddhism, Taoism, and the other cultural beliefs are aspects of Chinese culture, which are infrequently real considerations in Western business practices. Western businesses must consider these accepted practices and

attempts to ignore or change these superstitions can create resentment (Watson, 1973). The impact of a changing culture on the practice of family businesses has led to some keys to dealings.

Based on the authors' experience, two aspects of Chinese culture are of extreme importance when dealing with family businesses: Face and guanxi.

Face is important in most societies but it is of special importance in China (Ambler, 2000). "Giving face" or causing "loss of face" can make or break deals. The deep-rooted Confucian tenet for respecting the dignity of others has led to the all importance given to considerations of face. Showing respect for parents and elders continues to be important. The common practice of young adults, working in factories, sending money to support their families is strong evidence of the importance of this ancient tradition of respect for the family. While there has been some possible erosion of its importance as a result of increased materialistic ideals, face remains critical in dealing with small family businesses. Always give face and avoid loss of face when dealing with small family businesses.

Guanxi networks, or business networks, are important in business around the world, but it is an imperative for dealing with small family businesses in China (Vanhonacker, 2004). The Confucian tenet for the need for reciprocity is a foundation for establishing good relations. It is of utmost importance to establish a personable relationship when commencing dealings with family businesses. Getting deals done can be a long tedious process when adequate attention has not been paid to developing the appropriate relationship. Establish the relationship, then, conduct the business.

The Chinese people are a proud society. It is important to have an understanding of the customs in order to gain face and preclude loss of face. Understanding the importance of

establishing a relationship through guanxi networks remains an important aspect of conducting dealings with family businesses.

## CONCLUSIONS

China has undergone major changes since 1978 in its economic structure. The move from a centrally planned economy to a market economy has created the opportunity for small business entrepreneurs to greatly expand their activities. Throughout history, the family business owner has been a matriarch or patriarch with the owner being responsible for feeding, housing, and offering other benefits for the workers. As a result of economic reforms, today's worker is more independent. The traditional Chinese culture with Confucianism, guanxi, face, feng shui, Buddhism, Taoism, I Ching, calculating destinies, numerology, physiognomy, and other superstitions continue to influence the society. However, the society is becoming more materialistic to a degree and the traditional family ties advocated by Confucianism are evolving. While caring for family remains an important aspect of the society, the younger generation is concerned for economic gains for "self", first. This phenomenon is most evident in urban areas where the workers are becoming more individualistic, independent, and cosmopolitan. Job-hopping has become commonplace as low unemployment rates in urban areas have created opportunities for economic advancement. Loyalty toward the business owner has diminished and a more educated work force has created a somewhat mobile working class, which still considers face to be an important aspect of business dealings.

Changes in culture as a result of economic reforms are significantly affecting Chinese family businesses. The relatively short duration of the move from a planned to a market economy in China has received much attention by the contemporary press with numerous books and magazine articles. Additional research is needed to obtain empirical knowledge of the cultural

impacts of these economic changes on Chinese family business. Additional treatment by the academic community could provide insights into the impact of Chinese culture on family businesses.

While additional research is needed, several aspects of dealing with family businesses in China are unquestionably important. Consideration for face remains undeniably important. Giving face and ensuring no “loss of face” must be considered when working with family business associates. Face can make deals or can immediately break deals. Establishing guanxi networks in China also remains very important. Relationships are of utmost importance and business dealings will not become successful until a special relationship is developed in dealing with family businesses. In addition to understanding these cultural aspects of Chinese small business, it is important to understand the anomalies associated with the business functions including forms of ownership, management functions, decision-making, employee relations, and marketing-promotion. Chinese ethical behavior and their social and legal responsibilities also impact on the dealings with a family business.

Family businesses around the world are looking for opportunities to expand their trade. Chinese and Western businesses have an excellent chance to take advantage of the changing from a planned economy to a market economy in China. In order to conduct business successfully, it is imperative to understand the social customs, the evolution of the Chinese thought process, and the unique operating functioning of family businesses of this ancient Asian society.

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