

# **MIT**Sloan Management Review

**Roy Y. J. Chua**

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## Building Effective Business Relationships in China



China's growth and integration into the world economy are driving changes in Chinese business practices.

# Building Effective Business Relationships in China

China's ways of doing business are becoming more Westernized. But non-Chinese executives still must work hard at building trust in relationships with their Chinese business partners.

BY ROY Y. J. CHUA

A GLOBAL AUTOMOTIVE COMPANY entered the mainland China market following what it thought were the rules. Executives knew gifts were an important personal gesture and integral to Chinese business etiquette. They also knew that success in Chinese business culture was as much about whom you know as what you know.

To make the right connections, the company sponsored events and hosted lavish dinner parties to cultivate personal ties, including the all-important *guanxi* (commonly defined as personal connections between people doing business). Several years later, the company faced the fact that its efforts were producing minimal results.

As they tried to discover why, executives learned that despite all their efforts, the company had actually acquired a bad reputation among potential Chinese industry partners. The potential partners had come to view the company as a seeker of short-term transactional opportunities wrapped in expensive entertainment.



## THE LEADING QUESTION

How do you build effective business relationships in China today?

## FINDINGS

- ▶ Chinese business culture is changing as the country opens up to global businesses.
- ▶ Western executives need to start by developing their Chinese counterparts' trust in their competence and capability.
- ▶ Trust grounded in empathy and rapport is also particularly important in Chinese business relationships — and is more complex to develop.

The Chinese executives the company had carefully courted socially now viewed it as a source of free entertainment — a perk they came to expect with every interaction. Even worse, the potential Chinese partners had developed the impression that the company had few compelling business propositions to offer since it didn't seem to be focused on doing business. Although the company

## THE MYTHS OF GIFT GIVING

Much advice is given to Western executives about the ritual of gift giving in Chinese business culture. For example, you may have heard that it is important to offer gifts to senior people that are more expensive than those offered to their subordinates. But growing numbers of Chinese companies frown upon gift giving. As these companies engage with partners globally and locally, their business development practices are evolving; they now put greater emphasis on professionalism and building trust and confidence in business capabilities.

A case in point is China Data Group (CDG), a fast-growing company with more than 4,000 employees.<sup>1</sup> CDG, based in Beijing, develops technologies that provide business process outsourcing services for information-intensive industries such as insurance, credit cards and corporate banking. The company's goal was to become less reliant on *guanxi* relationships and to expand globally by building the company's brand equity, professionalism and service quality. The expansion targeted businesses in Japan and the United States, and CDG began recruiting executives with substantial international experience.

To try to overcome the tensions between the traditional norms of *guanxi* and new global expectations, for a while CDG actually established two separate sales organizations: the day team and the night team. The day team worked at client sites discussing projects, giving presentations and providing technical support. Their objective was to build confidence in the quality and reliability of CDG services. The night team would invite clients to dinner and other social events with the objective of building personal ties and rapport.

Tensions erupted when CDG secured its largest contract ever from a local Chinese company that received a cell phone from a senior CDG executive as a gift. Members of the CDG executive team were polarized. Some felt that the vice president in charge of the deal should be promoted. Others argued that such gift giving sullied the company's reputation and the night team should be disbanded.

The outcome? Expensive gift giving is no longer standard practice, and the night team was disbanded. The company's experience highlights how Chinese companies are moving away from some traditional cultural norms as they align their practices with international business standards.

knew the people it needed to know, like many other companies eager to gain a foothold in China, it had failed in its efforts to build critical relationships — and as a result, its business initiatives failed too.

## The Myths of Guanxi

In our studies of intercultural relationships between Chinese and Western executives, my colleagues and I discovered that a fundamental misconception has arisen about *guanxi*. Experts line up to sell Western executives courses, websites,

books and articles that promise to help them build *guanxi*. But the advice rarely strays beyond superficial notions of family and friendship and tips about such things as keeping business cards out of one's back pocket. Although there is an enormous focus on building relationships, there is little understanding of what makes them actually work.

The prevailing thinking about *guanxi* falls into two traps. First, it doesn't recognize that the business environment in China is changing. China's growth and its integration into the world economy are driving a stronger alignment between China's business practices and the expectations of Western partners. Regulatory procedures are gradually becoming more transparent, and the legal system is evolving to more effectively resolve disputes.

An increasing number of Chinese companies now actually frown on gift giving and other such gestures and are focusing instead on the business value that a potential partner brings. (See "The Myths of Gift Giving.") In that sense, developing *guanxi* is starting to parallel the more pragmatic networking that Western executives are used to; there is now a much stronger emphasis on what you know and what you can do than on whom you know.

The second trap is trying to build *guanxi* with the rather blunt instruments of social etiquette and vague notions of friendship and family. Successful long-term business relationships in China are indeed anchored by strong personal bonds. China does not draw a hard line between business and personal relationships in the way that many Western societies do. But trying to build *guanxi* the way Western executives are often advised to do can stymie progress — as the automotive company experienced. As an American branding executive in China put it, "Focusing too much on socializing actually cheapens the relationship."

Although foreign businesspeople know the importance of *guanxi* for business success in China, they receive little advice that gets to the heart of the matter of what makes business relationships with Chinese partners work. I believe a new prescription is needed, one that translates Western pragmatic business relationships into a Chinese context and provides substantive guidance on a key process for building effective business relationships: building trust across cultural borders.

The necessary trust must be developed in two different ways. The first is trust from the head — the sort of thing Westerners are used to. The second is trust from the heart, which is not only different but more difficult. In either case, if you want to create *guanxi*, it begins with trust.

## The Pivotal Role of Trust

In research my colleagues and I conducted, we found that trust lies at the heart of successful long-term intercultural business relationships. (See “About the Research.”) In cross-cultural business relationships, trust plays an indispensable role since partners from different cultures don’t always have the same values or assumptions about how business works. When trust is developed, partners can navigate difficult issues over time by fostering a candid exchange of ideas, issues and agendas. Developing trust can significantly reduce what Westerners often complain of in their dealings with Chinese counterparts: unpredictable behavior and a lack of transparency. As a Chinese executive at Google put it, “In China, your success depends on how well a person trusts you.”

To explain to Western executives how to build trust with Chinese business partners, we needed to first understand how trust is developed within American and Chinese business networks and what happens when different approaches to trust encounter each other across borders. Our research focused on two foundational types of trust. The first is what we call trust from the head (cognitive trust). This type of trust emanates from the confidence one has in a person’s accomplishments, skills and reliability. The second type of trust, which we call trust from the heart (affective trust), arises from feelings of emotional closeness, empathy and rapport. Most friendships and personal relationships are based on this second type of trust.<sup>1</sup>

Do Americans and Chinese build trust differently within their own business networks? To answer that question, we surveyed more than 300 Chinese and American executives from a wide range of industries, including information technology, finance, pharmaceuticals, manufacturing and consulting.<sup>2</sup> What we found is that Americans draw a fairly hard line between trust from the head and trust from the heart in business relationships. In

## ABOUT THE RESEARCH

The ideas presented in this article are based on my research, with colleagues, over the past six years into trust, cultural psychology and business relationships in China. I began by investigating the different psychological foundations on which managers trust members of their professional networks. Using a sample of 101 American managers attending executive MBA programs at Columbia Business School, my colleagues and I examined how managers engage their business associates. These managers completed a social network survey that captured, in detail, their associates’ backgrounds and how they interact. Cognitive and affective trust were among the key measures.

In a follow-up study, using the same method, we compared the professional networks of 130 American managers (also part of an executive MBA program) with those of 203 Chinese managers who attended a similar MBA program in China. In both of these studies, we used social network analysis methods to statistically examine how patterns of cognitive and affective trust develop in managers’ networks, identifying systemic patterns and differences.

The second wave of data collection gathered corporate field data. In the first project, we collected data on the bases for trust among Chinese senior executives when dealing with overseas partners. The sample consisted of 108 C-level executives of Chinese companies located in 12 economically developed provinces on China’s east coast. These executives were each asked to identify two senior executives at overseas partner companies: one of Chinese ethnicity and the other non-Chinese. During on-site interviews, the executives we studied completed questionnaires about each of their overseas partners, allowing us to compare how senior Chinese executives trust overseas partners of Chinese and non-Chinese ethnicity.

Continuing my effort to better understand business relationships in China, I also conducted in-depth interviews at a Beijing-based business processes outsourcing company (CDG) and developed a case study on how its leaders balance the commingling of professionalism and personal relationships in China’s fast-changing economy.

In preparation for this article, my research associates and I also conducted hour-long interviews with 20 American and European expatriates who have had experience working in mainland China, supplementing our empirical data with anecdotal evidence and stories. Overall, this body of research provides a wealth of data offering insights into how to become effective at building trust and *guanxi* in China.

fact, American executives are nearly twice as likely as their Chinese counterparts to separate these two types of trust. (The correlation between the two types of trust is about 0.6 for Chinese managers but only about 0.3 for American managers.)

This finding makes sense given Western culture and history. The West has a long tradition of separating the practical and the emotional. Mixing the two is perceived as unprofessional and risks conflicts of interest. Among Chinese executives, however, there is a much stronger interplay between trust from the head and trust from the heart. Unlike Americans, Chinese managers are quite likely to develop personal ties and affective bonds when there is also a business or financial tie.

## When Trust Crosses Borders

Our first set of findings brought us to the next question: How does trust develop *between* Chinese and Western executives? To find out, my colleagues and I surveyed senior executives at Chinese companies that had overseas partners of the same or different ethnicity from them. In on-site interviews with 108 Chinese executives (mainly CEOs and other C-level managers) with deep knowledge of their overseas partners, we found that there is a deficit of trust from the heart between Chinese executives and their non-Chinese counterparts.<sup>3</sup> Extensive research has shown that individuals who share a cultural background will invariably enjoy a common ground of values and norms, which can be a powerful basis of interpersonal understanding.

A Chinese-Singaporean executive, for example, found that his ethnic Chinese background helped him tremendously when he moved to Beijing because he could comfortably share in cultural practices such as the tea culture. (Tea drinking has a rich tradition in Chinese culture; the selection, brewing and appreciation of Chinese tea has evolved into sophisticated rituals and art forms.) The Chinese teahouse is an increasingly popular venue for Chinese business meetings, but mainland Chinese executives often find it difficult to share this experience with Westerners because they don't think Westerners can appreciate it. For Western executives doing business in China, this spotlights a challenge: There will almost always be a deficit in trust from the heart that must be bridged through deep cultural knowledge and experience. The challenge is reinforced when we look at the situation in the opposite way: There seems to be a presumption on the part of native Chinese that Chinese ethnicity cuts through the cultural differences that arise from having been born and raised in different countries.

The trust deficit between Chinese and Western executives is less stark when it comes to trust based on competence and reliability. Individuals within the same status group — in the case of our research, C-level executives — often have a bias in favor of judging the competence of their peers in a positive light. If one is a fellow executive from a well-established company, there is a presumption

of capability and reliability, and thus a platform for developing trust on that basis.

## Friendship and Family as More Than Metaphors

An Italian venture capital executive we interviewed told us flatly that in his experience, friendship means very little in Chinese business relationships. He constantly sees other Westerners heaping on smiles and nods only to find that the effort seems to nurture nothing. In our research, we found that Americans are indeed more likely to develop trust from the heart with friends in a business network than are Chinese managers. This has much to do with the importance accorded to family ties in China, as opposed to friendships. This familial collectivism has its roots in Confucianism, the ethical and philosophical system that has been at the heart of Chinese culture for centuries. Three of the five Confucian cardinal relationships — the models for behavior and harmony — are familial and hierarchical: father-son, husband-wife, and elder brother-younger brother. These familial and hierarchical ties foster affective bonds that are very different from bonds of friendship.

Americans, for example, will often develop friendships with their superiors at work. The Chinese, on the other hand, are likely to feel admiration and reverence instead. Chinese are also unlikely to develop friendships with subordinates — and less inclined to place an emphasis on friendship with these individuals.

But while family is a central concept in the Chinese context, the way Westerners think of it can be misleading. “Foreigners’ notions of *guanxi* can be too simplistic because often the notion of a family in a Western context is a small unit,” says a Hong Kong professor who works on building partnerships for her university. “People in China are close even within their extended family. The idea of *guanxi* is much broader.”

It is helpful to think of the notion of family in China as a template applied to many networks of relationships that hold the society together. In the Chinese business context, the notion of family is about more than the emotional support and ties of a nuclear family. Family members, for example, rely on each other for very instrumental needs



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such as loans or help in finding jobs. As such, family relationships intermingle trust from the head and trust from the heart. Given that the concept of family is a template for a broader range of Chinese social relationships, it reveals how Chinese business culture can comfortably combine these two types of trust. In fact, the Chinese word for trust, *xin-ren*, refers to both trust from the heart (*xin*) and an assessment of the other’s reliability and capability (*ren*). But the underlying concept also helps zero in on the essence of building successful business relationships in China: knowing how and when to build both types of trust.

## Two Types of Trust — and Two Stages in Relationship Building

Chinese business culture is changing as the country opens up to global businesses and organizations, and a stronger emphasis on one’s business partners’ competence and accomplishments is part of that change. What that means is that Western executives need to start by developing the other person’s trust in their capability. Chinese businesses and their executives are placing increasing emphasis on the value a potential partner brings and whether they can trust the reliability of that value. This should be encouraging news for Western executives. A major building block of successful business relationships can be established in much the same way it is done in the United States and Europe: through business needs and confidence in each other’s capability.

A young associate at UBS Securities we interviewed has used this change to build his network of future clients in China. He realized that Chinese executives are not always as knowledgeable about capital markets as they would like to be. He builds relationships with them by providing knowledge. “Once you show you can be helpful to them, I’ve noticed that people open up and trust you more,” he said.

Similarly, a young restaurateur we interviewed told us that in Hong Kong it is absolutely essential to start by building trust from the head: “Unless you add obvious value to someone’s network, you’re usually ignored.” To provide that value, he presents regularly at conferences and participates in industry activities. As a result, potential business partners are beginning to seek him out.

In many cases, the work you put in early on to show your worth helps build trust from both the head and the heart. A public relations consultant we know experienced this dynamic recently. A global Chinese company invited him to advise on increasing the company’s media presence in the United States. When the consultant traveled to China for the first time in nearly 10 years, he was astonished to see how pragmatic the business development process had become. Although there were plenty of dinners and social events, the goal of the week-long trip was both to define the project *and* sign a contract.

The negotiations, however, ran into trouble. The typical Western fix would have been to rewind to a point of agreement and then move forward on a different, more workable path. In this case, however, a colleague of the executive he was negotiating with took him aside and suggested that the next gesture should be one of “sincerity” to build more solid personal bonds. In other words, he had to build the *xin* part of *xin-ren*. To make that gesture, the consultant began to develop, free of charge, strategies and sample press materials that he would normally have charged for. The company liked the approach, and the gesture created enough personal trust to move to an agreement.

But the process doesn’t always move quickly. It can require a great deal of advice “off the meter,” and that can make Westerners feel they are being taken advantage of. It is a legitimate concern. And it is certainly true that in China, as well as anywhere else in the world, there are opportunistic

people who are looking for an unethical edge. Clearly, every executive will have his or her own litmus test for when requests feel unreasonable. But the point to remember here is that it may require giving away a tremendous amount of time or ideas before you are seen as worthy of your Chinese counterpart's trust.

### The Second Stage — Building the Personal Dimension

Given all the work it takes to build confidence in your ability, it is easy to focus too much on that type of trust and forget the importance of the personal dimension of trust. An American branding executive we spoke to discovered this the hard way — by

losing a \$20 million project. The executive worked for an American business specializing in branding and innovation. A Chinese company that produced baby goods requested help to build a portfolio of new products. The two companies, though, had very different views on the creative process. The Chinese company wanted to generate as many ideas as possible and then choose the most promising. The American company wanted to build a product innovation process and then help the Chinese company manage it. The two sides never came together, and the deal broke off.

Afterward, the American executive made a bold move. He resigned, relocated to China and began courting the baby product company as an independent consultant. He got to know the CEO quite well. He took a very hands-on approach and worked with the company to develop a process and several prototypes to meet the need of showing results. The company was impressed. It signed a contract, put a team together and appointed an engineering manager from the company to work with the team.

But the same issues around creativity arose again: the tension between the focus on process and the immediate desire for as many new product ideas as possible. The tension became so strong that the American consultant actually asked that the company engineering manager be removed from the project. To his astonishment, although the CEO empathized with the consultant, he refused, pointing out that he and the engineering manager hailed from the same village. In effect, trust in capability would never trump the affective tie that comes from such a bond. The contract was eventually canceled. In hindsight, the American realized that he needed to be more patient with the engineering manager. He needed to build rapport with the manager as well as confidence in the product development process and the results it could produce.

How do you build that rapport? Western executives who have mastered the art of building affective trust do so by developing a deep cultural knowledge — one that goes far beyond the mastery of social customs and etiquette. This deep knowledge can help bridge the trust deficit by approximating the basis of common ties and values that individuals from the same culture enjoy. (See “Building ‘Trust From the Heart’ Across Borders.”)

## BUILDING “TRUST FROM THE HEART” ACROSS BORDERS

Affective trust, or trust from the heart, is critical to effective intercultural business relationships. In my research, I have found that the powerful mental habit of cultural metacognition — constantly testing cultural assumptions in the context of actual experiences — helps build rapport by making people feel understood rather than stereotyped. My colleagues and I discovered that individuals with higher cultural metacognition skills were better at establishing rapport with and getting on the same wavelength as someone from a different culture, resulting in higher affective trust.<sup>ii</sup> Executives who have mastered cultural metacognition do four things. They consistently:

- Remain aware of their own cultural assumptions.
- Test these assumptions against reality — that is, do the assumptions help them understand motivations and predict behaviors?
- Revise the assumptions if they see that they don't apply.
- Plan how to integrate this new knowledge in upcoming interactions.

To build this skill in your business relationships in China, try two practical approaches. The first is to carve out time to engage in active reflection prior to any intercultural interaction. Before the interaction, take 10 minutes to consider these questions:

- What assumptions do I have about Chinese culture? What assumptions are the Chinese likely to have about *my* culture? What do I know, and what *don't* I know?
- Do my assumptions and knowledge apply in a given context, such as a negotiation? Or are they more applicable to a social event?
- What are some potential challenges that might arise? How can I address them? What do I need to know to avoid potential misunderstanding?

Second, you should always engage in active inquiry and observation during any interaction. Be mindful that your assumptions or interpretation of Chinese culture might not be accurate or applicable in a given context. This is especially important in China, where economic and social development is still uneven across the country. Coupled with local cultural differences in different provinces, business norms and practices are less monolithic than many non-Chinese assume them to be.

For example, rather than assuming that all Chinese are highly concerned about losing face, and so being reluctant to offer a frank opinion, it's a better strategy to observe how your counterparts interact with one another and check your assumptions against that. While it is generally true that face-saving is critical in China, the manifestation and degree to which it is practiced might vary. When in doubt, it is often useful to seek the advice of a local cultural guide.

Engaging in these cultural metacognition habits will help make your Chinese counterparts feel that you “get them.” As a result, you are more likely to create common bonds.

Speaking the language can be a powerful tool for navigating the culture. In Chinese, as in English, one word or sentence can mean different things. Recognizing this, many Western companies are committing more and more resources to language training, and any Western executive with a major assignment in China should take advantage of it. At a minimum, Western executives should always have excellent translators available for important discussions to make sure nothing gets lost. Of course, don't over-rely on third parties. You are trying to build the relationship; your translator is not. And be certain you have not missed any details. Always be sure to maintain a firm grasp of all the issues involved and your counterpart's underlying interests and sentiments toward them. But language isn't a substitute for deep cultural knowledge. As a Chinese managing partner for a global recruitment firm pointed out: "Even though people may not understand each other's language, they can still communicate well. It's all about understanding each other's culture." This cultural knowledge is at the crux of developing trust from the heart — particularly outside the office, where so much of a business relationship in China is developed.

The social setting became key for the managing director of a major beverage company. He was sent to China from the United States to direct a major turnaround. One of the first challenges he encountered was the reluctance of his Chinese subordinates to openly question his ideas so that he could develop the best solutions. To get them to open up, he spent a great deal of time getting to know them outside the office, understanding their families, experiences and backgrounds. Like other executives who are successful in building the personal dimension of business relationships, he knew that this arena was about much more than customs, etiquette and smiles. It is about bringing to bear a cultural awareness that makes a person feel understood — not stereotyped or simply plied with gifts and displays of etiquette.

When anyone feels that inaccurate cultural assumptions are lurking, that feeling can stifle rapport. Think about how Americans feel if they suspect their European counterparts are looking down their noses at American culture. Or how Europeans feel if they suspect their American partners

perceive them as culturally chauvinistic. In Western business relationships, where personal bonds matter less, this sort of tension may not seriously hamper the business relationship. But in China, personal rapport is absolutely necessary.

Because Western executives continue to experience frustration and tension in their relationships with Chinese partners, many Western companies have started to recruit locally and then train Chinese hires through assignments in other parts of the company's global enterprise. The idea is that it is simpler to hire the cultural knowledge and then provide the business knowledge. Although this is certainly part of a good solution, it is creating a war for talent and driving up salaries. It also skirts the issue that many Western executives will still need to develop solid working relationships in China. Those who have done so understand the pivotal role of trust and how it is developed in a dynamic, changing Chinese business culture.

**Roy Y. J. Chua** is an assistant professor of business administration at Harvard Business School. Comment on this article at <http://sloanreview.mit.edu/x/53416>, or contact the author at [smrfeedback@mit.edu](mailto:smrfeedback@mit.edu).

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