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Success Factors of Small and Medium-Sized International Enterprises in the Chinese Market from the Perspective of Polish Direct Investment (Cultural Approach)

Abstract

Globalization has resulted in increasing transfer of firms operations, regardless of their size, to other countries. The recent dynamic emergence of China in the global economy, connecting with the vast inflows of foreign direct investment in their territory and common adjustments problems of many Western companies, has resulted in growing interest for best suitable business practices to this culturally and socially different environment. In this article, the key factors critical to the success of international companies in this region are introduced, with particular consideration to indigenous cultural elements and specific operation requirements of small and medium-sized enterprises in Business-to-Business sectors. The presented information are based on the broad literature review, five years of direct observation and thirty eight interviews conducted with Polish managers directly residing in China. In addition, some practical recommendations for managers and further research are given.

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1. Introduction

In recent years, one of the most important changes in the world economy is the gradual emergence of China as its dominant driving engine. Since the reforms initiated by Deng Xiaoping in 1978, the country has been continuously developing at the world's fastest rate, with annual GDP growth averaging 9.7% per annum (China Statistical Yearbook, 2009). During the last three decades, the People's Republic of China (PRC) has been transformed from one of the most isolated and economically underdeveloped countries, to one of the fastest growing and dynamic economies globally. Even the latest financial world crisis, that started in 2008, has not prevented this impressive trend, where the GDP in 2009 dropped to only 8.7%, and has jumped more than 11% in the first two quarters of 2010, being 11.9% and 11.1% respectively (National Bureau of Statistics of China, 2010). The scope of China's business development is also reflected in the nation's enormous leap in the last ten years from seventh to second place among major economies, where it has outpaced such powers as Germany in 2007 and Japan in the second quarter of 2010.

This unprecedented economic growth, enormous market potential due to its population, the Government's pro-investment policy and its accession to the World Trade Organization (WTO) in 2001, has made PRC one of the largest and most important destinations for foreign direct investment (FDI). In just only two years after joining the WTO, China has overtaken the USA as the most popular market for FDI, absorbing more than 53 billion US dollars. FDI inflows in 2009 further increased to 90 billion US dollars (Invest in China, 2010). In the first three quarters of 2010, the value of FDI has already amounted to approximately 74 billion US dollars, with more than nineteen thousand newly approved enterprises by the Chinese Government (Ministry of Commerce, 2010). As Wu Jinglian has noted, among the world's top five hundred non-financial corporations, more than four hundred have investment projects in China and international companies have also set up approximately four hundred R&D centers of various types (Wu 2005, p. 300). Every year, tens of thousands of multinational companies are competing for the possibility of entering this promising market by establishing joint-ventures or forming wholly foreign owned enterprises (WFOE). The presence in this market has become for many of them, not only an opportunity to lower production costs, as it was the case in the 90s, but a necessary strategic choice in global competition, where the purchasing power of the Chinese consumers cannot be ignored. After initial investment from leading multinationals in the 80s and 90s, the last decade has become a time for smaller and medium sized enterprises (SMEs)[1] to enter this market, whom have begun to extensively ponder China for their own growth and expansion plans, especially following new regulations introduced with WTO accession[2]. Recent statistics have confirmed this trend, indicating that SMEs are now the largest group investing in China[3].

It is a common myth that the Chinese market is easy to conquer (Chee 2006 p. 41). A large group of western-based multinationals operating there have discovered the enormous adaptation problems to this culturally different and dynamically changing environment. Fundamentally disparate business practices characteristic of this region, with the still dominant Confucian philosophy and comprehension of the surrounding world reality based on Taoist and Buddhist values, ensure that Western investors have a much higher chance of making mistakes and leading to failure. The cases of collapsed joint-ventures due to a lack of understanding with local partners or even their subversive activities, protracted negotiations ended in fiasco, fierce and destructive price competition, intellectual property theft, market fraud, lack of reliable human resources, huge dependence on authorities, are still the common business reality of Chinese market[4]. It is a difficult task to cope with these challenges, even for large multinationals, which in the majority of cases have the advantage of recognized brand and substantial financial resources allowing for long-term investments without regard to short-term profit. It is worth to quote here as an example the trouble of IT giant Microsoft, who has not integrated its organizational culture and codes of conduct with the business game rules that apply to China and additionally, during the early period of investment the company could feel the complete lack of acceptance by the Chinese government, that was initiated by the self-confident behavior and overbearing attitude of Bill Gates when he visited Chinese Government officials (Gao 2007, p. 84-86). Another similar case are the initial errors committed by the Danone Group in determining the entry strategies in the dairy product market (Melewar 2006, 407-417) and the spectacular failure of their joint-venture in the beverage sector, which led to loss

[1] SMEs include those firms with fewer than 250 employees (European Union classification).

[2] Compare: Mechem, R. M. (2004), *Strategies for Investing in China*, 'The China Business Review', September–October, p. 6.

[3] The average value of investments in 2009 amounted to approximately 3.9 million US dollars, similarly just in the first three quarters of 2010 did not exceed 4 million US dollars. (http://www.fdi.gov.cn/pub/FDI_EN/Statistics/FDIStatistics/StatisticsofForeignInvestment/t20100118_117104.htm).

[4] Compare: Wu Jianlian (2008), *An Analysis of Business Challenges Faced by Foreign Multinationals Operating the Chinese Market*, 'International Journal of Business and Management', Vol. 3, No 12, p. 169-174.

of control over the brand leader, *Wuhaha* (Yao 2008, p. 47). However, as recent observations have indicated, it is not large corporations, but SMEs that are particularly susceptible to failure and defeat in China. They no longer receive any bonuses for being first to the market and bear the burden of ever-growing higher operating costs[5]. Additionally, they have far less capability in acquiring resources, both human and financial, and usually possess easier to copy core competencies and key abilities. Moreover, they are perceived differently by Chinese consumers and State authorities, which are now increasingly more supportive of local companies.

The analysis of literature related to FDI issues in China, shows that despite a significant change in investment trends in terms of firm size, the majority of authors' interest is still focused on the experiences of large multinationals, overlooking the different information needs and specifics of smaller companies. Taking into consideration the above, the aim of this study is to fill the gap by introducing factors critical to success and presenting different aspects of operations in this market (often completely incomprehensible to Western investors), with particular consideration to the SMEs perspective.

2. Sources of information and methodological assumptions

This study is based on multiple sources of evidence, analysis of the literature, many years of observations and conclusions from own research carried out with Polish companies directly operating in China, which in fact in most cases can be classified as SMEs. The qualitative research methods, mainly case study analysis with the application of semi-structured interview techniques were utilized (Kalve 2004, p. 38).

A special interview guide containing open-ended questions, together with some general background questions about company and participants experience was developed. Nevertheless, an open and flexible approach was maintained during the whole questioning process. Interviews were conducted in 2008/09

[5] For example in 2007, China unified the corporate income tax on domestic and foreign companies at 25 percent. Previously, foreign firms paid a 15 percent corporate income tax rate, 18 percentage points lower than their Chinese counterparts. Since 1st December 2010 two additional taxes were introduced for foreign firms with operations in China (a construction tax and education surcharge), which would increase expenditures on local operations for a further 10 percent approximately.), [in:] China Daily (1.10.2010) *Foreign, Chinese firms' tax burdens unified*, Vol. 30, No. 9543, p. 14.

and they were part of a bigger project concerning relational specifics of the Chinese business environment. The respondents were managers permanently residing in China and directly responsible for managing the operations in this market. The final analysis was based on thirty-eight case studies from the sum of forty five enterprises examined. The sampling process was purposive and ceased when subsequent cases did not bring further information to researched phenomena. The decision to end the theoretical sampling process was undertaken when so-called theoretical saturation has been reached (Konecki 2000, p. 31). It should be mentioned that this study constitutes almost the entire Polish investment activity in China. Since the PRC was established, according to the Ministry of Economy of Republic of Poland (RP) and the Embassy of RP in Beijing, Polish companies have initiated only several dozens of direct investment projects in this market. The total value of Polish investment is estimated to approximately only one hundred and eighty million US dollars. For example in 2006 and 2007 the total invested amounted to only 17.45 million US dollars[6]. Similarly, the number of Polish managers responsible for the management of business units in China, according to unofficial data obtained from the Embassy of RP, does not exceed 70-80 individuals. All organizations who took part in this research project operated on this market for more than a year, with the average length of approximately six years. The division according to the legal form of activity was shaped as follows: 42% representative office, 28% joint-venture, 21% representative office in China with company incorporated in Hong Kong and 13% were wholly foreign owned enterprise (WFOE). Managers participating in the study had resided in China for at least one year. Three of them were able to confirm over twenty years of tenure (the longest being twenty two years) in this market. The average length of stay was about four and a half years. There were only seven companies employing more than one hundred employees, and in twenty cases, the number does not exceed ten people. The average number of employees was forty seven. Most of the companies had chosen Beijing and Shanghai for their locations (34% and 30% respectively) and then Shenzhen and Guangzhou (15% each).

The best-known Polish companies in the Chinese market are: Chinese-Polish Joint Stock Shipping Corporation Chipolbrok, Shandong Tagao Mining Machines Manufacturing Co. Ltd., Qingdao Kamax Buffer Equipment Co. Ltd, Foshan Chinuri Selena Chemicals Co., Selena Shanghai Trading Co. Ltd, Shandong Liangda FASING Round Link Chain Co. Ltd., AMG Just Value Co. The remaining majority are small-scale trade companies, purchasing offices

[6] Calculations based on: China Statistical Yearbook, 2008.

which supervise subcontractors and independent units specialized in the Chinese market to providing services to importers.

In the research project and the following presentation of key success factors, due to cross cultural issues, the methodological guidance of J.W. Berry concerning harmonious linking of the *emic* and *etic*[7] approach for this type of analysis was applied (Berry 1989, p. 721-735).

Industry specific conditions and requirements were deliberately omitted in this analysis. However, the vast majority of the presented findings are primarily pertaining to the B2B sectors, for the reason that there are no Polish companies who have invested in the Chinese fast moving consumer goods (FMCG) market. Moreover, the main authors' intention was to present these critical success factors, which were frequently revealed by respondents, caused the biggest problems in implementation, and must be taken into consideration regardless of the type of business activity and position in the distribution channels.

3. Success factors for the Chinese market - Research results

Before the presentation of specific success factors for the Chinese market, it should be noted that many commonly used business practices, both in the developed and developing Western countries are valid and should be applied here. Business rules such as setting clear objectives, finding appropriate and qualified personnel, conducting market research, adjusting product portfolio, focusing on critical mass scale, preparing for competition activities, are some of these basic practices. Investors often in a frantic rush of enthusiasm and the fear of forever missing the tremendous opportunity of this market, switch off their business sense and at all costs attempt to win this prospective market. This usually leads them to long-term losses and eventually withdrawing from China[8].

Apart from aforementioned common business practices, respondents had additionally indicated several indigenous aspects and factors playing significant

[7] In the *etic* approach the reality is explored 'from the outside' of the system perspective, culture is treated objectively, and assessment criteria have a universal (absolute) character. The *emic* approach is based on the interpretation 'from the inside' of the system, where the culture is defined subjectively and where idiosyncratic concepts are used to describe a picture of reality. - Compare: Usunier J-C., Lee J.A. (2005), *Marketing Across Culture,*'Financial Times Press', Edinburgh, p. 182; Konecki K. (1994), *Kultura organizacyjna japońskich przedsiębiorstw przemysłowych. Studium socjologiczne*, UŁ, Łódź, p. 22.

[8] Compare: Yan R.. (1998), *Short –term results: the limits test for success in China,* 'Harvard Business Review', September-October, p. 61-75.

role in achievement of market success. From respondents' opinions, it has emerged the particular role of culture factors, to the lesser extent the emphasis was put on aspects affiliated with the development stage of the market. The usual justification for this choice was explained by the enormous dynamic market changes and rapid adjustment to international standards. In the first group of cultural factors, the most important role was placed on building personal relationships under the *guanxi* paradigm, and closely related concept called *renqing,* which emphasize the special need for favors' reciprocity. Additionally, the respondents have highlighted the ability of Chinese people to embrace and keep up with paradoxes, as a result of the common way of thinking based on *Yin/Ying* philosophy, and popularly used military strategies called *Bingfa* of Master Sun Zi in the negotiation processes. In aspects typically associated with the development stage of the market, the strategy of small steps, focusing on the niche market and flexible adaptation to the different customers requirements was the resounding suggestion. The aforementioned factors are describe below:

1. Development and cultivation of personal relationships based on *guanxi* paradigm - especially with the Government and customers

Guanxi as a key success factor in Chinese market operation has been indicated by more than three quarters of interviewed managers (76 percent). *Guanxi* literally means: *'personal relations or connections and interpersonal relationships'* (Wang 2001, p. 4), but in the Chinese context it has a much deeper meaning and significance. Cognition and practicing *guanxi* is part of the socialization process and becoming 'Chinese'. As an indigenous socio-cultural concept, it is deeply rooted in Confucian philosophy and constitutes the base of all interaction in the society. Chinese people measure its position in social relations to other members of the community using the scope of their networks to also transfer this approach within the business realm. In the literature, including sociological, psychological and economical, despite numerous publications and research over this concept, there has still not yet appeared its unification in definition and it will most probably never happen because of its ambiguity, dynamics and social character. Generally it is assumed that *guanxi* - is a special type of relationship based mainly on family members and also formal and informal interpersonal ties, that refer to the social common experience or heritage (for example birthplace, dialect, school and university or workplace). These relationships are defined by reciprocity arising through an continuous exchange of favors and mutual obligation (Chen 2001, p. 46).

The *guanxi* phenomena because of many similarities and enormous implications for building and maintaining market relationships is often acknowledged as the Chinese version of relationship marketing[9]. Western relationship marketing and *guanxi* do share many common features such as long-term perspective, co-operative behavior, focusing on understanding and multiple exchange and highlighting the mutual benefits. However, it has to be highlighted that *guanxi* has also its additional unique attributes:

Firstly, it has a typical personal characteristic, often does not reflect the linkage at the organizational level. Relationship marketing on the contrary is mostly concentrated on connections at organizational level.

Secondly, the *guanxi* social relationships are not a consequence of positive transaction results, but are pre-requisite for this transition to happen in the first place. Thus, in contrast to Western business systems, where firstly the transaction occurs, and its positive effect creates a platform for relationship building.

Thirdly, trust in *guanxi* networks, is purely personal and because of poor legal protection in carrying out transaction becomes its specific substitute. Western managers rely more often on trust connected with formal 'systems' (e.g. legal, organization-procedural etc.) which ensures transaction safety.

Lastly, in *guanxi* relationships the affective values can outweigh the economic ones. In western relationship marketing, promises and favors are of a purely economic nature (product, service, information), but within *guanxi* networks, apart from the material nature, it also has a concealed element in the form of *ganqing* (emotion, sentiments and feelings shown among network participants).

The effectiveness of the *guanxi*'s use in business activities has already been empirically confirmed[10]. The utilization of *guanxi* has a positive impact, among others, to obtain information, access to raw materials and markets, helps in overcoming institutional barriers and lack of stability in government regulatory policy, reduce transaction costs and increase the cooperation safety. The need of *guanxi* building in order to achieve long-term success in China was also revealed in research conducted by Abramson and Ai at U.S. companies (Abramson 1997, p. 765-804) and by Björkman and Kock at Scandinavian

[9] Compare: Iwińska–Knop K., Linka J. (2009), Marketing relacji w działalności polskich firm na rynku chińskim, [In:] Rosa G., Smalec A.(ed.) Marketing przyszłości – Trendy, strategie, instrumenty. Partnerstwo w marketingu, 'Ekonomiczne Problemy Usług', No 41, Szczecin, p. 54-63; Linka J. (2009), Marketing relacji-perspektywa dwóch cywilizacji. Implikacje guanxi dla polskich inwestorów, [in:] Piotrowska-Piątek A.(ed.) Marketing sektorowy w teorii i praktyce współczesnych organizacji, WSEiP, Kielce, p. 63-82.

[10] Compare: Yeung I. Y. M, Tung R L. (1996), *Achieving business success* in *Confucian societies*: The importance of guanxi (connections), 'Organizational Dynamic' 1996, nr 2, p. 54-65.

investors (Björkman 1995, p. 519-535). Furthermore, Luo studies have revealed a positive correlation between the use of *guanxi* with increasing sales and return on investment for multinational companies operating in China (Luo 1997, p. 1951-1970).

Taking into account the various principles of building and maintaining market relationships, the Polish managers attributed the special role of building the relationships before the transaction commenced, to recognize it as a big obstacle, but also a factor, which influences potential success. For most of them, the hardest was the initial contact, that will allow them to enter (as one of the interviewee described):'…*so-called magical world of connections and relationships. When this occurs and the introduction person is for example a local Government official, investment issues are easier and better... '.*

Among the main stakeholders with whom the *guanxi* relationship should be built, first place were Government officials (76 percent) and customers in second place (71 percent). The relationships with local workers was at third place (indicated by 40 percent), and with intermediaries at fourth and suppliers at last (26 percent and 15 percent respectively). These result could be surprise in the most developed European economies, however in China because of the enormous bureaucracy and continuing influence of Government officials on the market operations, are fully justified. In many cases, it is still dependent on the willingness of individual officials to speed up the process of necessary permits and receiving further assistance in solving the manifold bureaucratic problems that can arise in the everyday operations. One manager supervising a manufacturing plant in Jiangsu province, described the impact of this situation as follows: *'...in China without guanxi you are nobody, ... you will not being able up to arrange the simplest license, taxes, permission to build a factory, and even electricity*[11] *can be switched off for your business only, ... in China, everything is based on personal connections and the resulting favors ... '.*

Building relationships with the Government's sphere is, according to Polish managers, much more difficult for SMEs compared with large multinationals, because of their lack of status, which usually eases the direct contact with, for example the Provincial Government. The best solution for SMEs in this situation is to use third party assistance. The most common quoted example of such intermediaries were loyal Chinese workers or high ranking diplomatic corps representatives. Additionally, an interesting proposal of using the idea of cities' partnership (of the company origin and Chinese investment place) as a good platform to initiate *guanxi*, was given: *"...Well-managed cities'*

[11] Often electricity cuts are a common problem for many companies in the three most industrialized provinces : Zhejiang, Jiangsu and Guangdong.

partnerships can be a great platform for creating guanxi with the potential Government and city's key decision makers. Our company, as a result of such cities' friendships is always invited to all official events, which allows us to make contact with the most influential people in the region..." Highlighting and demonstrating the contribution of future investments to China's development was the next mentioned important issue in building *guanxi* with the Government. This allows maintained 'face' by officials, if in the case of being accused of bias for a particular investor, can always indicate the circumstance was beneficial for the country.

Due to a common lack of blood ties by the Westerners in China, it is a good option to apply as an initial *guanxi* platform for instance the joint education (course, training) or belonging to the same business associations as the local partners. Furthermore, respondents have drawn attention to the growing number of Chinese students at foreign universities, also in Poland:'…*The Chinese studying abroad can be employed and become a great source of guanxi among the elite Chinese and transfer it to the company. In addition, through their academic training in the West, they fit much better to our way of thinking and management practices…*'. *Guanxi* relationships created by the joint education and transfer through the loyal Chinese employees were rated the highest among the study participants, primarily because of their relatively less utilitarian and more emotional nature.

Several respondents despite admitting to the use of *guanxi*, however had a very critical view on this phenomena emphasizing its negative social results and perceived it as a euphemism for Western pathologies such as nepotism, connections, friends favoritism or socially acceptable corruption. Only few respondents thought that they did not need to apply *guanxi* to do business in China. It should be noted, that in most cases, this group consisted of those managers with the shortest experience in cooperation with Chinese, usually without the fundamental knowledge of indigenous culture (and language), and mostly employed in purchasing subsidiaries, where they have dominant position in the distribution chain.

2. Long-term commitment of Senior Management and reciprocating favors -according to the *renqing* rules

Long-term commitment and reciprocating of favors as a significant factor for achieving success were indicated by more than half of the managers participating in the study (60 percent).

In connection with the above-described tendency to build a sustainable, harmonious personal relationship, and the cyclical time approach, the Chinese do not accept frequent changes among the managerial staff in foreign investors subsidiaries. This is particularly important for smaller organizations, where individual characteristics and managers personal relationships are usually the main source of social capital for the foreign firm. Any changes leading to disruption of harmony in cooperation and loss of trust, which is associated here foremost personally with the top management.

The requirement of long term and personal commitment is closely related with the concept of *renqing*, which has no equivalent in Western civilization. *Renqing* coincides and is often equated with the phenomena of *guanxi* relationship, where it is understood as favors reciprocity dimensions of these relationships. In essence, *renqing* provides the moral foundations for reciprocity and equity, that are implicit in all *guanxi* relationships. If you disregard the rule of exchanging *renqing* favors, you may lose face, hurt feelings, and jeopardize your *guanxi* network (Luo 2000, p. 15).

Similarly, to the concept of *guanxi*, due to the dynamic nature, social character and ambiguity, precisely defining *renqing* is difficult. In the literature *Renqing* is mainly view in three dimensions: as emotional responses in daily life, the social capital represented in informal expectation of the reciprocity of favor (*bao*) within *guanxi* networks (*guanxiwang*) and the set of social norms. (Hwang 1999, p. 953-4.) For the sake of simplicity, it can be assumed, that it is a form of social capital associated with the informal expectations of favor reciprocity in *guanxi* networks. In practice, the person who does not obey rules of *renqing*, and does not reciprocate the favors is seen as untrustworthy and is excluded from the *guanxi* network. Violation of this rule by one partner is interpreted as opportunistic behavior in the whole network of hierarchy and connections, which elicits exclusion and losing future exchange and cooperation opportunities. For this reason, Chinese businessmen generally do not behave opportunistically within their own *guanxi* networks (*guanxiwang*), on the contrary to the exchange processes with Western partners, who are often treated as outsiders. The peculiar feature of *renqing* is not only materialistic but predominantly emotional in nature, with tendency to be asymmetric in favors reciprocation. The weaker and lower ranked partner participating in *guanxi* network can call for a special favor, for which he does not have to reciprocate in equal degree (Huang 1987, p. 956-9). This aspect was particularly incomprehensible for the Western managers, which are accustomed to economical and organizational nature of commitment, with emphasis on symmetrical reciprocation based on cost and profit calculation. Moreover, the Chinese believe that *renqing* does not need to be repaid immediately, but can be postponed in the long-run when the other side is in need, even for future generations. Thus, the *guanxi* relationship, in which *renqing* is embedded, demands continuous willingness in a never-ending spiral of favor reciprocity which one always amply pays off. According to the Polish respondents these aforementioned aspects determined the need for managers to stay longer in China or even to plan their entire careers in this region: *’...two, three year stays in the market does not make any sense. You have to know people, build the connections network, and above all, they must trust you. However, this requires considerably more time than in our culture. It is advisable, if they know that you will spend all your professional career life here. Then at this point, it is possible that you will become a true member of their guanxi networks...’.* Common practice of Western companies to frequently rotate managers on short term stays in one country has caused a pragmatic attitude of Chinese counterparts, resulting in the expectation of immediately needing to return favors, what is rather associated with a bribe (financial, material dimension), but not with a real *renqing* based on emotional involvement in the relationship.

3. Adaptation to the Chinese way of thinking-based on *Yin/Yang* philosophy

The capability of adapting to the Chinese way of thinking in terms of *Yin/Yang* philosophy, allowing them to embrace and keep up with paradoxes and contextual evaluation of reality, was mentioned as the success factors mostly by managers who had the longest experience in the Chinese market and educational background related to the culture and language. The remaining executives although noticing enormous paradoxes occurring in the Chinese partners' behavior nonetheless, were not able to account for the reason for such conduct.

Yin/Yang is the Chinese dualistic philosophical concept of opposing but complementary elements of the whole existence (Kajdański 2005, p. 321). The perfect harmony in the universe is based on a balance of two opposing elements of *yin* representing female elements (the moon, night, darkness, water, warm, passivity etc.) and *yang* representing male elements (the sun, day, brightness, dry, cold, activity etc.). Every element reaching its extreme, becoming part of the opposite, and the cycle of these changes is continuous. Resulting from this Chinese worldview of holism and paradoxes assumes, that the surrounding reality is not precise, but complex and full of contradictions, and its elements are not isolated and independent. Chinese people do not perceive simultaneous co-existence of opposite values and behaviors as illogical, but on the contrary, using of *Yin/Yang* philosophy, tend to intrinsically embrace paradoxes for their sheer existence and healthy development (Fang 2006, p. 77). Therefore, the *yin/ yang* principle explains many Chinese concepts and practices that look inconsistent, weird and puzzling for Westerners, but do not disturb the internal consistency and coherence of the Chinese people’s minds. As an example, can be quoted the commonly heard Chinese slogans like: ‘one country, two systems’ (*yi guo liang zhi*), ‘stability and development’ (*wending fazhan*), ‘socialist market economy’ (*shehuizhuyi shichang jingji*) or even the word - crisis (*weiji*), where *wei* means danger and *ji* paradoxically opportunity (Fang 2008, p. 195-6). According to the

Polish managers, duality of Chinese partners' behavior is mostly visible in common connections of collectivist views about the formation of dense business networks and emphasizes the mutual support within, but at the same time displaying the most individualist traits, if their own family was concerned. Additionally, Chinese negotiators despite indication of a long term relationship as a key success factor in business, were able to make decisions and conduct actions in a typical transactional nature, preferring profit from a singular transaction over the prospect of long term cooperation and commitment. One Polish respondent described this situations as follows:'…*In the beginning it is not worth to believe in assurances of friendship and the prospect of long term business. If they do not earn profit from the first transaction, it is guaranteed that there will be no future cooperation. Friendship here is possible, but it requires many years of nurturing the relationship… '.*

The Chinese also contextually evaluate issues related to price negotiations and contract terms. For example, if market circumstances will change (say commodity price increases) or unexpected problems inside the company will appear, the Chinese partners consider that the previously agreed terms and conditions do not apply and usually demand higher payment or withdrawal from its obligation. This is obvious and consistent with the nature of *Yin/Yang* principles, but for Polish managers were mostly inconsistent and incompatible with western business standards.

4. Ability to adapt to the Chinese concept of negotiations based on *Bingfa* – (patience, persistence and vigilance)

Intuitive adaptation to different negotiation practices of the Chinese partners was perceived as one of the main success factors in this market by Polish participants, regardless of the type of business they were involved in and the culture-related educational background. As a result of disparate system values, Chinese negotiate differently compared to Western counterparts. The thorough understanding of this style and the appropriate implementation in the action was considered as essential and critical elements in enhancing cooperation and success in this market. Speedy, transparent negotiations, conducted on the win-win approach, based on only rational business premises and completed with signed contract, that is valid for the specified period of time therein, are here rather the exception than the rule. On the contrary the Chinese negotiate endlessly, often behave irrationally, apply a lot of 'dirty tricks' (if judged in accordance to Western standards) and treat the contract as a starting point for a new round of negotiations. The biggest impact on the Chinese way of negotiation primarily had the traditional teaching of Master Sun Zi, especially his military strategies '*Bingfa*'[12], contextual approach to the reality based on previously described *Yin/Yang* philosophy and the cyclical time approach.

The Sun Zi *Bingfa* (the 'Art of War')[13], allegedly written by Master and Thinker Sun Zi - in the VI-V century BC, is next to the works of Carl von Clausewitz 'Vom Kriege'('On War') the world's most famous title pertaining to military strategies and rules of war conduct. Even today, *Bingfa* is still regarded as one of the most influential and basic classical thought in East Asia, and the rules on how to handle conflicts and disputes applying these concepts often continue to be taught at schools. In his work Master Zi enunciates the strategies and tactics used to overcome psychological barriers, environmental conditions, time constraints and personal or organizational shortcomings. Sun Zi recommends and emphasize the utilization of opponent's weaknesses and arise occasion, at the same time give the highest value for conquering the enemy without having to resort to war, giving the priority first and foremost to the avoidance of bloody conflicts. Strength, according to him, is a relative concept what means there is no absolute superiority and inferiority in war. One must know where enemies strengths are and one's competitive edge lies, as well the where, how, and when to engage in competition. For example deception to confuse the enemy's perception of own power is one of the best methods to strengthen oneself. The guiding principle of the entire work is constituted on the rule of high flexibility in action, as the best way to combat enemy. It is impossible to list all strategies presented in this treatise, so chosen examples were predominately emphasizes by Polish respondents.

One frequently mentioned strategy is the use of deception tactics in negotiations, based on Master Zu quote 'All war is art of deceptions'. That is, the ability to create a false impression and appreciation of surprise in action. Chinese businessmen, especially when negotiating with smaller international clients, which in most cases do not posses sound judgment on the market, take advantage of their naivety and consciously mislead them. For example, they introduce other factories as their own, invite them to the most expensive restaurants, so that this action creates a good impression to facilitate signing a favorable contract. The Director of a Polish clothing purchasing office explained it this way: *'... It has happened to me several times where I have seen the same factory presented as their own by two different companies. Agents continue to use both the lack of insight and discernment of many international companies to the true realities of this market, often presenting themselves as*

[12] Compare: Brahm L. J. (1997) *Sun Tzu's art of negotiating in China*, Naga, Hong Kong, p. 38

[13] Bing in Chinese means soldier, fa doctrine, which together is usually translated as "the art of war.

producers, while usually only possessing a small office with the one advantage of English-language service ...'.

Another strategy often implemented in the negotiation process is 'to lure the tiger out of the mountains', that is, to lead the enemy to fight in foreign and unknown terrain. In practice, this principle consists of making the working conditions harder for the decision-makers, for example '…*by conducting the meetings on hot days without air conditioning, explaining that it had just broken down*…'.

Usage of a critical threat to provide the opportunity to attack is part of the next Sun Zi strategy 'attack by fire'. It is mostly based on destabilizing the opponent by provoking confusion and misunderstanding on its side. For instance, interviews are conducted with each individual negotiator separately or the style of negotiation is changing continuously, from a very amicable, smooth mode to the very relentless and tough stance. The exhaustion tactics are aimed at achieving a certain level of physical and mental fatigue of the adversary, who finally give up on key issues. This strategy is closely linked with the Chinese cyclical approach to time, for example resulting in: '*… that the price of goods (or services) in China is often only a function of time that a foreigner client can devote to negotiations. If you assume that an agreement is settled in one day, advisably you should book three days, because the price may vary each day ....'.* Chinese negotiators precisely select the date and duration of the negotiations, discussing for example the least important issues for the majority of the day and then leaving to the end (say before plane departure) the most important matters. Respondents indicated that very firm conduct, not to reveal any impatience and always leaving the possibility of an extension of stay for the *"…second round of negotiations"* are the best tactics to counter such tricks.

Furthermore, the interviewees indicated the common lack of real decision makers participating actively in the negotiations. Typically, the direct negotiator has very limited rights, and final decisions are made by another key person (usually the owner or general manager), who during the process of negotiation is far more concerned about relational aspects and the sincerity of the foreign partner.

Another important issue is the habit of Western managers to conduct negotiations in an orderly manner, where consecutive issue are solved in a sequential way. The Chinese on the contrary, discuss all topics simultaneously in a haphazard order, jumping from one issue to another and back again, and often returning to the initial conditions which had already been established. One of the directors working for the subsidiary in the construction industry described the situation as such: *'…In my five year career in China I haven't experienced negotiations, which were conducted step-by-step. When you think in our logic,* *Chinese negotiations are chaos. Everything needs to be discussed at the same time and coming back several times to points that have already been finalized is not unusual. Additionally, even if you think everything has been agreed upon, you may receive an email the next day that the price needs to increase 10% because of miscalculation. Such tactics should not be accepted because it is another attempt of using dirty tricks…'.*

The golden rule in Chinese negotiations is to focus on continually building relationships with the local partners during the entire time, including the implementation period, because negotiations are an introduction to cooperation and mutual understanding, and not as in the West, the conclusion and termination. Additionally, a contract is treated as just one episode of an ongoing relationship (Pay 1982, p. 49) and it is worth to remember that it is seen more as visible proof of the lack of trust between partners, than the actual signed agreement. In China, written contract does not guarantee the enforcement of transaction but the quality of relationship. Thus, successful Western negotiators have to always balance between their needs and goals, and adapting to the Chinese relational style of problems solving and enforcing contracts.

5. The rule of small steps, focusing on niche markets and flexibility in conducting operations

From the group of success factors affiliated with the development stage of the market, three examples were repeated frequently and were mentioned irrespective of the industry and the activity profile: the rule of small steps, choosing and focusing on the niche market and flexibility in action. Most surveyed respondents emphasized, that China is a extremely large, very diverse and demanding market which should be conquered slowly but surely, in small steps, flexibly adjusting the entry strategies for regionally diverse customers. Furthermore, managers have also put particular stress on the legal form of investment, preferring the full ownership (than joint-venture) and focus only on the right chosen niche market.

It is widely assumed that to be successful in China, the best form of entry is a joint-venture with a well-connected local partner. Polish managers had different opinions on this issue, pointing to a Wholly Foreign-Owned Enterprise (WFOE), as the most preferred form of entry, to secure sustainable investment development. (This is justified with the change of legal regulations after PRC entry in to the WTO and abolishing many restrictions and licenses) Moreover, Government officials approving FDI are currently paying less attention to the legal form of entry (previously mandatory to be a joint-venture with local partner) and they are more focusing on what the company brings to the country's economy, particularly in terms of technology transfer and job creation. Respondents additionally supported their opinion by drawing attention to many examples of lack of understanding about managements' model and practices, profit sharing issues, and numerous cases of partner subversive activities in order to weaken the existing joint-venture, to build their own new business on the acquired technology and know-how. One executive working in the mining industry described the following case: *"... after only one year of cooperation as a joint venture, our partner has started producing the same tools in their own plant to compete with our common company. The only solution was to incur losses, stop co-operation and start business again as a WOFE…"*. Joint-ventures as a form of entry have not been completely ruled out. In the initial period of acquiring the market knowledge, this type of cooperation may be very beneficial, but after gaining experience, self-investment methods should be considered.

Selection of a successful location was also highly debatable. Although the majority of Polish companies set up offices in the four major urban and industrial centers of China: Shanghai, Beijing, Guangzhou and Shenzhen, their current executives have indicated this as an initial strategic error. They considered that it is not always beneficial to copy the practices of large multinationals, which usually set up headquarters in these cities. SMEs (especially Polish) are nowadays often unable to afford the increasingly high cost of office space, and usually lose the competition in the battle for qualified local personnel. The choice of second and third-tier cities were advised as the best solution, not only for cost effective reasons and solving recruitment issues, but additionally as an advantage in obtaining licenses and favorable treatment from official authorities, for whom foreign investment is still considered a privilege.

As far as the market strategy is concerned, SMEs should primarily recognize and focus on small niche markets, that are not large enough to be attractive to big multinationals. Respondents emphasized, that to capture a larger market segment with limited resources at this stage of China's development is almost impossible. Competitive advantage, especially in B2B markets, was seen in building strong relationships with all current and prospective customers, which is usually only possible in very small niche with limited number of participants. In strategic plans it should also be taken into consideration that the ever-increasing competition from local firms, especially State-owned, which often behave irrationally in terms of cost effectiveness, due to unlimited access to Government subsidies in order to achieve adequate market share or just allowing them to only survive.

China's environment requires extensive flexibility in operational conduct. Geographical and social diversity causes the situation that an already implemented strategy in one city often might not be suitable in other locations of very close proximity. Additionally, to obtain similar market data as available in developed economies is almost impossible. This is mainly a consequence of the market size and additionally Chinese attitudes to interviews and questionnaires. It is vital for managers to make an effort to not only understand what Chinese customers are saying, but what they really value, because the two do not always go hand in hand. The Chinese rarely reveal the truth in market research, for the reason of protecting theirs' and interviewers' 'face'. Thus, especially in B2B markets the regular contact with customers, line managers often get more precise and up to date information about true product requirements and market situations.

4. Conclusion

China has undoubtedly become an important player in the world economy, and the success in this market or the strong skills in how to cooperate with the Chinese, can give firms the chance of supremacy in the global competition. However, SMEs have to face the fact that even their technological advantage and excellent organizational skills are not enough to be able to win in this tough environment. From the above analysis, it appears that in addition to basic business principles, special attention should be devoted to culture related factors.

This study has highlighted that particular importance should be emphasized on personal relationships built on *guanxi* paradigm, reciprocation of favors according to the rules of *renqing*, thinking based on *Yin/Yang* philosophy (allows Chinese to embrace paradoxes and contextual evaluation of reality) and common usage of *Bingfa* strategies in negotiation processes. Complementary to these elements, additional important factors for SMEs success are focusing on market niches and flexible ability to product adaptation.

Conditions embedded in the Chinese environment undeniably result in more complex and intricate management practices. It demands from managers greater time devoting to building elaborate personal relationships with all shareholders, including those in the Government sphere. The crucial issue is the choice and appropriate training of expatriate managers. The preparation process should be multi-phased and multi-directional, primarily focused on the ethical culture standards and different logic, based on embracing paradoxes, ambiguity tolerance and asymmetric equivalence of favors. Furthermore, Western managers should be prepared that Chinese partners intertwine business and personal relationships and highlight private over organizational preferences. They have to also demonstrate particular patience during the protracted negotiation process, which often tends not to discuss the project or finalized contract, but instead to aim to get personal knowledge of the partner relationship potentials. Gaining trust during this assessment would be the key element in cooperation and it can be achieved for instance by the ability to anticipate the partners' needs and sensitivity to their problems. This shows respect and emotional involvement in the relationship. However, if the Chinese side realize that the relationship is not valuable, managers must remain vigilant not to succumb to the many tactics aimed at misleading and taken advantage of them. Furthermore, as a result of growing competition in many sectors and significantly different demands from the Western environment, generally the implementation of the 'global' or 'standard' market strategy in China is ineffective. Thus, companies should be adaptive and flexible, using small step strategies to increase the rate of success.

It is worth noting that the various voices in the quest for modernization and westernization of the Chinese economy will eliminate many of the aforementioned differences in the business arena, but these may only be true in terms of technology, production, and market transparency. However, it is questionable whether this will have any significant impact on the abandonment of indigenous norms and cultural values. Progressive Westernization of China may prove to be very superficial, similarly to how history has shown in other newly-industrialized Asian countries, which have more or less preserved their heritage. For example traditional culture of Japan, Singapore and South Korea, despite quick and radical modernization, remains on the contrary very strong, and it is the Western investors that have needed to adjust and accept their norms and principles.

As with any research, our findings have some limitations, including the sample relating only to Polish companies. As a result of the specific structure of Polish direct investment in China, the main focus was concentrated only on the B2B market and the experience of SMEs. Therefore the remarks are narrowed to this type of activity and size of companies. However, applying these findings to other businesses of different scope, which are facing similar investment problems can also be relevant. Additionally, authors are aware of having presented a only one-sided Western approach, thus a very interesting future topic could be the introduction of Chinese managers' experiences when co-operating with foreign investors. The next step might consider research conducted in pioneering Chinese companies investing abroad, and report their opinions on managerial practices and co-operating issues with local Western partners.

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Streszczenie

CZYNNIKI SUKCESU MAŁYCH I ŚREDNICH PRZEDSIĘBIORSTW MIĘDZYNARODOWYCH NA RYNKU CHIŃSKIM Z PERSPEKTYWY POLSKICH INWESTYCJI BEZPOŚREDNICH (UJĘCIE KULTUROWE)

Globalizacja wymusza na firmach, niezależnie od ich wielkości, coraz częstsze przenoszenie operacji do innych krajów. Dynamiczne pojawienie się Chin w światowej gospodarce i szeroki napływ zagranicznych inwestycji bezpośrednich na ich teren oraz problemy adaptacyjne wielu zachodnich przedsiębiorstw, spowodowały zainteresowanie najlepszymi praktykami biznesowymi dostosowanymi do tego odmiennego kulturowo i społecznie otocznia. W artykule zaprezentowane zostały najważniejsze czynnik mające wpływ na osiągnięcie sukcesu przez firmy międzynarodowe na tym obszarze, ze szczególnym uwzględnieniem aspektów kulturowych i specyfiki działania małych i średnich podmiotów na rynkach B2B. Prezentowane informacje są oparte na przeglądzie literatury, pięcioletnich obserwacjach bezpośrednich oraz trzydziestu ośmiu wywiadach przeprowadzonych z menadżerami polskich przedsiębiorstw odpowiedzialnymi za operacje w Chinach. Dodatkowo wskazano kilka praktycznych rekomendacji menadżerskich oraz możliwości dalszych badań.