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Doing agribusiness in China



There is a widespread belief that partner arrangements between New Zealand and Chinese businesses have a high risk of failure as a result of different ways of doing business. This article presents perspectives on these cross-cultural problems, developed from interviews with nine informants from the food and agribusiness sector, including four New Zealand entrepreneurs who currently work and live in China. Also interviewed were five Chinese who are either entrepreneurs themselves, or middle to senior management working closely with New Zealanders. The information presented here is the first stage of a research project investigating cross-cultural business relationships between New Zealanders and Chinese in New Zealand agribusinesses operating in China.

Main findings

The first stage findings confirm that there are major cultural differences which arise from different world views. Chinese cultural perspectives are a result of the historical context, and Chinese behaviour is mainly a consequence of Daoist beliefs combined with Confucian moral values. As a result there are distinct characteristics of the Chinese way of thinking which are important for New Zealand entrepreneurs to understand.

Chinese tend to go with the flow

For thousands of years, Chinese people learned to arrange their activities according to the changes of the natural environment. They cultivated in the spring and harvested in the autumn. Nature was also unpredictable so the Chinese way has been to try and respond to large forces and adapt, rather than fighting them.

This mode of thinking still exists today and is reflected in their business strategies. It is different from the dominant western style of strategic thinking where a goal is set and then a detailed procedure to achieve such a goal is worked out for implementation. Chinese strategic thinking relies on the inherent potential of the situation. They prefer to be carried along and react to this potential as it evolves. In other words, the Chinese tend to be flexible and 'go with the flow'.

This strategic thinking has direct implications in cross-cultural business relationships. Western partners usually expect to develop a contract and an associated plan, and then follow it to achieve the pursued target. The Chinese tend to see a contract or a plan as simply a snapshot in time. They expect to change the plan as things progress to suit the situation. Therefore, contractual details are likely to be seen by the Chinese as guidelines which in practice may or may not be followed.

Towards opportunities

A main attribute of many agribusiness projects is that they have long production and investment cycles. In addition, they take place within a variable biological environment. The notion that a contract could take into account all of these

uncertainties would be unrealistic. One New Zealand entrepreneur leading a large-scale horticultural operation in China commented that at the incubation of this business venture he was approached by local Chinese inviting him to hop on board what would be an exciting train journey. The Chinese themselves did not know where the train would stop and how the business would evolve. All they needed to know was that it was travelling towards opportunities.

Another implication of this Chinese strategic thinking is the need to be presented with a situation which possesses a good position and potential before they would have the confidence to take a further step. The train journey example mentioned above depicts precisely such a situation. Although the destination of the journey was unclear, the people involved perceived themselves as heading into a good space from which great potential could be realised.

This means that when New Zealand entrepreneurs are aiming to form a business relationship, it is necessary to reveal the current situation and its potential in a way that would be perceived favourably by potential business partners. The New Zealand party's sincerity for collaboration alone will not secure the partnership. The Chinese will want to see that the potential collaboration is on an upward trend, with scope for everyone to be a winner in all those within business arrangements which will evolve.

Harmony

From the perspective of operating within an existing cross-cultural business relationship, the Chinese tendency to go with the flow has another implication. They tend to avoid coercion or confrontation. The Chinese world view emphasises the harmonious coexistence of man and nature with the ultimate goal being that the two are unified. The word harmony therefore becomes a core value to many Chinese and is reflected in how they do business. For example, coercion is regarded as non-productive and destructive for a relationship. Chinese people rarely resort to legal action when things go wrong.

In saying this, many Chinese people appreciate the simplicity of a more direct approach in the west where things are more clear cut. They see that the Chinese balancing act of juggling relationships to create and maintain harmony can be tiring and inefficient. However, the unwritten social rule of maintaining this is so dominant in their society that most feel obliged to follow the rule regardless of liking it or not.

China is a country ruled by people, not by law

Despite all the rules and regulations in place, the reality of China is that this is a country ruled by people, not by law. China has never had a separation of powers between governance and judiciaries throughout its history. Those who make the laws also practice them, often making their implementation appear to be subjective and ambiguous.

Combined with the Confucian value system, where hierarchy is highly regarded and therefore authorities are

not to be challenged unless they have deviated from the principles of good government, the Chinese tend to defer to those who are in power and rely on kinship. This is another element emphasised by Confucian teaching. It means that networks and patronage are probably more reliable than the legal system, particularly when it comes to problem solving. This reliance is the reason why the Chinese see the need to establish good *guanxi* – relationships or connections that are often long-term.

The key to establishing good *guanxi* is to create inter-dependency and where this exists there is security in the relationship. To create inter-dependency, first there needs to be an alignment of interests. Such an alignment should be on two levels. First, there is the policy level, where the New Zealand entrepreneur's business aim needs to be in line with the target that the Chinese central or local government wants to achieve. This is because the influence of the authorities on businesses in China cannot be ignored.

Second, on the personal level, it is important for the alignment to be in the best interest of each party for the other to succeed. Nevertheless, the alignment of interest is only the start of creating inter-dependency within a business relationship. Therefore the partnership structure needs to be set up in a way that those involved would not want to do anything else but to work towards the success of the other. It is through this symbiotic inter-dependency that a strong relationship or *guanxi* can be established.

Chinese strive to survive

It is not just the population growth within the last 100 years that has made survival in the forefront of Chinese people's mind. Throughout its history there has been a struggle with a relatively small amount of land to feed a relatively big population. Many Chinese are therefore hard-wired in their minds to have survival above everything else.

The not-so-well established social welfare system means that, for many people, security for the future relies on themselves and their only child. This usually means that they need to earn as much as they can and whenever they can. Combined with the Confucian value of gaining social recognition as a main goal in life, along with the vast opportunities in recent economic development, many Chinese have become increasingly materialistic and eager for a quick success. Unfortunately, this is often accompanied by short-term thinking.

Two motives

At the operational level, this quick success could mean a tendency to take short-cuts and cause inconsistency in product quality, which can be a major challenge for New Zealand agribusiness ventures in China. At the relationship level, this quick success almost seems contradictory to the desire to form long-term *guanxi*. However, it is actually possible for a person to possess both motives.

Whether someone is worth forming a long-term *guanxi* with, or can be taken advantage of with a quick success

scheme, often depends on the circumstances. Ultimately, many Chinese are opportunists. Their survival instincts teach them to be more pragmatic about how someone should be approached before considering the morals of the exercise involved.

From a New Zealand business perspective, the first step towards building an effective business relationship with the Chinese is to understand their drive to survive. They need to convince their Chinese counterparts that their future is secured for survival before discussing anything else.

At the same time, New Zealanders should not present themselves in a situation where circumstances would allow people to take advantage of them in a quick success scheme. There is also a need to recognise people who could potentially have more of a tendency towards quick success, and therefore avoid making costly commitments to them. In other words, the alignment of the moral principles of both parties is very important for a solid foundation for establishing a long-term effective business relationship.

Projects or products

An implication of this quick success versus *guanxi* approach can be particularly important when dealing with officials who are often more interested in projects rather than products. Whereas a project often has a start and finish time, a product in China refers to the long-term focus of certain business activities which will continue production to remain profitable. For example, a project from the perspective of an official could be building a fruit processing plant at a certain location, where the start and end time are clearly defined. But whether this processing plant will remain functional and profitable will depend on the management of the plant to process particular products.

Due to the five-year plan scheme in the Chinese government, and the considerable transfer of government officials between roles and locations, there is a tendency for

some officials to focus on construction projects rather than profitable products. Considering the long-term investment cycles of agribusinesses, it is particularly important for New Zealand entrepreneurs to identify from quite early on in the process whether a potential collaboration would be project or product focused before getting too involved.

Summary

Chinese think rather differently from New Zealanders. Their world view and social structure encourage them to be more reliant on network and patronage rather than law, and be non-confrontational and go with the flow, particularly when it comes to business strategies. A contract is therefore only a starting point rather than the finish line of a business negotiation.

When entering a negotiation, the New Zealand entrepreneurs will need to present a potential business environment. This would enable the Chinese counterpart to be in a good position, with promising potential to satisfy their desire to survive and to convince them of the upward trend for their advantage. They also need to identify and avoid those who are out to get quick success. Then to move on, and work towards forming a long-term *guanxi* with those who are more interested in a product rather than just a project. To build this relationship, the collaborative business structure will need to be so that everyone involved is inter-dependent.

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- All those materially affected are consulted, and agreements from consultations are recorded and enforced
- Investors ensuring that projects respect the rule of law, reflect industry best practice, are viable economically and result in durable shared value
- Investments generate desirable social and distributional impacts and do not increase vulnerability
- Environmental effects from a project are quantified, and measures are taken to encourage sustainable resource use while minimising the risk of negative effects and mitigating them.

The capacity to identify and obtain investment opportunities is critical and cannot be done from a distance.

It is not a sprint, and it requires that the investor is accepted in the local context. A consortium approach, working with land and agribusiness educational linkages, may offer a viable mechanism for building these necessary relationships. Africa offers challenging opportunities to be an active and constructive part of its massive world. New Zealand farming principles and cooperative agribusiness-based models are highly relevant.

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