

Saimaa University of Applied Sciences
Faculty of Business Administration Lappeenranta
Degree Program in International Business

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Basic intro of business culture in the Chinese market for foreign investors

Thesis 2018

Abstract

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Basic intro of business culture in the Chinese market for foreign investors, 58 pages, 2 appendices

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The main objective of the thesis was to lay out essential business culture for foreign investors entering the Chinese market for the first time. The thesis came out as a theoretical-based paper which is made up of four chapters: an introduction of the thesis structure, a comprehensive cultural-based business guide, an introduction of case companies, and a final conclusion of the thesis. And the research is not only provided for future investors with a jump start on the way to China, but also for companies that already have a presence there and desire to keep-up with a better understanding of cultural aspect when doing business in China.

The qualitative research applied to conduct the interviews, which were held with the case company's managers of Xiaoqian Overseas Consultant Company and Coca-Cola Company. The information of the theoretical part was mostly gathered through authentic literature, articles, online sources, and business journals.

The thesis is delimited to the main challenges of entering the Chinese market that is related to basic cultural-based intro of the facts and knowledge, and more and more are left uncovered due to research delimitation and topic. The outcome of the thesis was developed as a comprehensive overview of business culture and evaluation in the Chinese market, which presents basic intro of the Chinese market in a cultural aspect for potential foreign investors.

Keywords: business culture, guanxi, mianzi, human resource management, cultural-based theories, Chinese business, location, ethnic minorities

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List of Abbreviations

FDI	Foreign Direct Index
SFTZ	Shanghai Free Trade Zone
SEZ	Special Economic Zone
QSEZ	Qianhai Special Economic Zone
GDP	Gross Domestic Product
TAR	Tibetan Autonomous Region
XUAR	Xinjiang Autonomous Region
MAR	Manchus Autonomous Region

Appendices

Appendix 1 Interview questions for Xiaoqian Overseas Consultant Ltd

Appendix 2 Interview questions for Coca Cola Ltd

1 Introduction

After decades of remarkable growth, China overlooks Japan to become the world's second largest economy right behind the United States, which the scholars also estimated that China would surpass USA by 2030 regard to the scientific research (The World Bank 2017). Since the Chinese market reforms in 1978, China has successfully transformed to a market-based economy that is one with more dynamic, international level of business trade and collaborations, from a traditional planned economy which was fundamental attributed towards the domestic market, has achieved rapid social and economic development.

China's role as an important leader in the global economy has been consolidating by now. In addition, it is indeed as one of most attractive countries in the world, where a significantly increasing number of foreign investments flow into the Chinese market and many other types of international firms seek out business collaborations with China (Mueller 2017). Nowadays, China offers a huge variety of business and job opportunities for foreigners. Achieving success or getting a dream job primely depends on the strategy and the understanding of Chinese business. This idea allows many foreigners to strike it rich or send them packing home. Thus, there are countless questions and stories to be confronted and prepared to enter the unpredictable beauty of Chinese business beforehand; how to build up the effective business strategies or market entries in the Chinese market and what practical recommendations should be carried out in advance. Language and culture barriers, political and global affluence and so on, have come up to the rise.

Knowing about the market is never enough. Due to the fact that many foreign investors who barely experienced China by themselves in searching and keeping up with marketing trends and legal operations inside of China, whilst lots of xenophobic western reputed Medias complimented the significant growth of China with bias by giving inappropriate interpretations of its concurrent situation and economic transactions, which has been misleading foreign investors entering the Chinese market in a wrong way or even down to the bankrupt (Moak 2018). Consequently, when it comes to seek out the solutions for market changes and uncertainty, the best way to that, not only should the investors get familiar with the

Chinese market, more preciously and carefully in the essential aspects such as culture, legal, taxation, customers and business counterparts where they could be reached from the reliable and authentic resources.

The author has been looking through published thesis and other research works relating to business entries or intros in the Chinese market both at the academic library and on the Theseus database, such as the book “How to manage a successful business in China” by Johan & Anders, and the scholar research paper Legal aspects of doing business in China published by Ecovis Organization in 2014. It is obvious that those previous studies are slightly similar to the content of the research, but some vital and valuable parts have been left outside in which should have been included, how to make an adequate and proper entry in the Chinese market. For example, the main differentiation among diverse ethnic groups when doing in China; the business perspectives and opportunities between the north/south part of China; the hiring and recruitment process of local employees, etc., some of which are the exact topics that we would like to point out as supplementary information to thesis work, if necessary, extra sub-topics worth to research will be added up.

As we all know, China has a long, rich history with 5000 years, with an estimated population of 1.388 billion that is equivalent to approximately 19 percent of the total world population (Population of the world, 2018). More precisely, the population is composed of 56 ethnic groups, many foreigners have never conduct their research in this domain. Therefore, doing business with different ethnics from different parts of China can be seen as a time-consuming challenge but a must for the people living outside of China regarding business etiquette, languages, and other factors, of which we deem it interesting to be discussed and that aroused my curiosity to fresh in-depth knowledge and to conduct more productive research.

In addition, with the help of further empirical research and data analysis by the end, we would provide a comprehensive and complimentary knowledge for potential and current business situation in the Chinese market, providing the reader with a head start on the way to China. Moreover, the intent of the thesis tends to

reveal Chinese business culture and characteristics and hiring and recruitment process of local employees.

1.1 Objectives and delimitation

1.1.1 Objectives

The main objective of the thesis is to lay out essential business culture for foreign investors entering the Chinese market. Here is the list of sub-objectives as well:

- To identify some of crucial challenges that foreign enterprises face before taking on the Chinese market for the first time
- To find out the diversity of ethnic minorities in China and the largest three which make up for the Chinese market; Manchu, Tibetan and Uyghurs
- To illustrate those essential Chinese business etiquettes, Mianzi, Guanxi, and other in-depth level of business concepts
- To offer practical considerations and knowledge in integrating with China's business culture by comparing it with the countries of Finland and America in terms of Hofstede six cultural dimensions
- To summarize the brief information about Human Resource Management in the Chinese market, since the process of hiring local Chinese process is way more different than the west because of culture emphasis

Due to the uneven rates of growth in different parts of China, it has exacerbated many economic and social differences that existed among disparate cities and provinces. Therefore, another objective about business location is also important to be included:

- To highlight the appropriate geographical locations to target.

In fact, foreign investors used to involve in areas of China where more advanced developed cities or the place nearby the coastal area, since they have served the most suitable ground for them. However, in recent years, several low-operating costs with more open environment cities are creating a huge demand for taking in foreign products and services, which has attracted many investors pioneering

their first try-out in these unexploited areas to operate sustainable business models in the future. By illustrating more specific, clear discourse of Chinese business culture, geographical politics, and other factors, the thesis aims to analysis deeply insight of the Chinese market for foreign companies of all shapes and sizes.

1.1.2 Delimitations

The thesis is delimited to the main challenges of entering the Chinese market which is related to basic cultural-based intro of the facts and knowledge, as China presents distinct variations from any other market in the world. The content of the research is composed of introducing the market from the Chinese point of view and conducting the evaluation of fundamental business culture, location and recruitment management. The primary data is based on the previous literature review to define the market in general and through interviews with case companies to determine the Chinese marketing analysis and evaluation from a western perspective. In this research, the researcher primarily concentrates on marketing intro to foreign investors by deeply illustrating business culture and driven locations only, therefore, those topics linking to establishing a business in China will be left outside, such as manufacturing, registration services, joint venture, taxation, politics and law, establishment, and financial advisory.

As mentioned, business location is important; China contains 33 provinces and 2 administrative regions. It is technically impossible to cover the whole map of the country. Considering only three typical cities will be drawn to marketing pool of conducting research and analysis: Shanghai, Shenzhen, and Tibet, all of which are large and fast-growing cities that rank the best economic performance based on the key indicators, such as, foreign direct investment (FDI), income statement, growth input and output, have been increasingly attracting potential foreign investors compared to other cities in China.

Furthermore, having mentioned in the introduction, China has 56 ethnic groups, which Han Chinese accounts for the majority of 90 % of the overall Chinese population and the rest form 55 ethnic minorities of China. In this case, it would point out only three different ethnic minorities (Manchu, Uyghur and Tibetan) as the

representatives to underlying similarities and difference because of the complexity and complication of collecting data and furthering investigation.

1.2 Research questions

In light of research questions, which have consisted of one major research question and five sub-questions that are profoundly worked as a stepping stone for analyzing the whole market: The main question is what is the vital business culture in the Chinese market? The rest of five are as follows:

- What are the vital business prerequisites for foreign companies entering the Chinese market?
- What are the insights of common market barriers to the Chinese market and practical consideration to be made when approaching China?
- What to expect of Chinese business culture and general human resource management?
- What are cultural difference compared with the countries of Finland and the United States when doing business?
- How to evaluate geographical advantages of the targeted markets and select business location from the Chinese point of view?

1.3 Theoretical framework

The theoretical chapter starts with a general overview of the history and development of the Chinese business transformation and its current leading role in the world, including business culture, ethnic groups, market availability and sensitivity. It begins with the definitions based on the books and scholar journals from Lappeenranta academic library, like "Doing business in China" (2009) by joint authors Tim Ambler, Morgen Witzel and Chao Xi, "How to manage a successful business in China" by Johan Björkstén, Anders Häggglund (2010). Regarding to other references used for ethnic groups research and their business cultures, which can be found only in Chinese Language but will be translated into English and marked on the final report.

Then it continues with Greet Hofstede six cultural dimensions by comparing with the countries of Finland and the United States, of which the idea is to provide

practical means to manage the impact of culture on business (Greet 2017): to help foreigners get into an insight of values and structure of Chinese business culture in comparison with the west. In addition to cultural dimensions, two more vital principles of Guanxi and Mianzi are introduced, with which they influence all aspects of doing business in China and can be seen as the keys to build up a successful business.

1.4 Research methods

With regard to research questions, the qualitative research is applied to conduct the research and data collection by using semi-structured interviews. According to research methodology, the interviews would be more flexible, appropriate style to conduct as it is not only guided with some pre-determined questions prepared in advance, but also allows the interviewers gain additional knowledge and data with further follow-up queries. (Mark et al 2009.)

Seeing that the design of the research required the interviews conducted by telephone or via the Internet as an alternative to “face-to-face” meeting, will lead the discussion to be recorded and then subsequently transcribed in formal writing. Since both case companies locate outside Europe, we were not able to organize physical interviews, therefore, Skype interviews have been negotiated and scheduled. Moreover, with the use of qualitative research, it assists in collecting the maximum amounts of data and information that attributes to be a more comprehensive and reliable outcome of interviews. (Mark et al 2009.)

Through the use of empirical research via interviews along with the manager who is currently working at an international company Coca-Cola branch in Shanghai, China, which provided the most authentic and useful information related to its analysis of business culture and concerns in the Chinese market. While the Chinese company XiaoQian Overseas Consultant Co., Ltd would be interviewed and that will present concurrent business environment and culture for foreign investors from the point of Chinese views. The more detailed information about these two companies that have been written in Part 3.

1.5 Structure of study

It is no doubt that China as a new emerging market attracting lots of foreign inventors coming from all over the world. However, the country has a huge potential risk in business culture and uncertainty that have to be coped with. The main object of the thesis is to find out what is the essential business culture and environments for foreign investors entering the Chinese market for the first time.

The first part of the thesis work concentrates on the basic information of the Chinese market, previous literature review, and the cultural aspect in China. In addition, it also includes ethnic groups' research and geographical locations analysis for business entries to the extent of achieving the integrity and connection of the whole research.

The second and the third part introduces two case companies as to examine the theoretical concepts applied and to gain new ideas and knowledge in the Chinese market since the trends of global marketing is dramatically changing in every period of the time. Consequently, the qualitative research method taken place to arrange the interviews with case companies, collecting valuable information in search of market demand and service needs and requirements.

As to final conclusion, summarizing the content and the purpose of the research in the Chinese market at the end.

2 Introduction of Chinese market

Between 1949 and 1976, under Mao Zedong's leadership, the people of Republic of China implemented Socialist economic policies, followed by inspiring revolutions of the Soviet Union in the late 1950s (BenCham Shanghai 2016, p.15-18). Following the collapse of the regimes of the imperialists and the political split with Moscow, the advocacy of urgent reforms taken place by such leaders as Deng Xiaoping and Liu Shaoqi, whom advocated to reestablish connections between China and the outside world in 1978. This reform revolution has resulted in transforming the economic systems reversely to a positive outcome, leading to China's entry into the WTO in 2001 that China has obligated to open and liberalize its

economy in an effort to better integrate with the world economy and comply with the commitments to the WTO (Oxford Bibliographies, 2017). There can be no doubt that the reforms boosted up rapid economic growth and politic-social development.

From 1979 onwards, China's economy has enjoyed about 30 years of remarkable growth, owing to the reform and the economic transformation that instigated by Deng Xiaoping, who opened China to the world (Francisc & Luis 2010). Subsequently, an increasing number of flow of foreign investments entering China, even till today.

Despite the fully opening-up door to the outside world, foreign investors still find themselves constrained from both the general framework and the behaviors of customers that differed from that they live (Francisco & Luis 2010). This, together with the hinders like language and business culture, makes it even more hard for foreigners do business in China.

In addition to several barriers mentioned above, it must be noted that much of information in the news is unreliable, out of date, or even intentionally misleading, since the western press negates the image of the China's rise with biased views, which is all about the suspicions and devalues of the distorted portrayal of China (Francisco & Luis 2010). This is particularly applied to western coverage of issues such as human rights, education, heavy industries, intelligent patent, etc. *"Reading about China is one thing, hearing about it from someone who has already seen it and done it is another"* (Francisco & Luis 2010). Many different companies and international organizations usually have their representative offices in China, regardless of the size or location, which can provide further reliable information to be consulted prior to business visit.

Back to business, when entering the Chinese market, another factor that causes the attention between different cultures: in particular, is mindset. There is no need to be suffocated; natural courtesy and social behavior always suffice. The Chinese government at all levels are much welcoming those who create new business opportunities and culture integration to China's market. It is more important for foreign investors, to be friendly and alert, and to keep an open mind (Francisco

& Luis 2010). China is just a different part of the world where the inhabitants live. There are many differences and similarities between China and the west, but with a plenty of common features as well.

2.1 Choosing the location in China

China is not one market, it is a collection of several markets and should be treated separately and carefully (Business Sweden 2016). It is almost the same size as Europe, with more than double the population. Thus, foreign investors will not target all of Europe as one big market so does China.

The question of where to target is often heard by foreign companies who are approaching to the Chinese market, or those seeking marketing expansion and penetration. The most significant difference in China is regional economies. Coastal cities in the Chinese eastern seaboard are economically well-developed, benefiting from the interactive locations with South-East Asia and better infrastructure (China-Britain Business Council 2011). These cities were formally among the first group to the reform and opening-up policies that were encouraged to take in foreign investments and to form joint ventures with the overseas, which has significantly accelerated sustained growth since 1978 (China-Britain Business Council 2011). By contrast the vast inland regions in China are still on the road to compete and catch up with the coastal areas.

China has over 180 cities above 1 million inhabitants, with huge regional cultural and economic differences, each of them has its own role and status in China which connects to economy, education, finance, and many necessary aspects (Business Sweden 2016). Therefore, to select a wise location in China of a manufacturing factory or branch office can be way more important than other things. Similarly, some cities have been intentionally reinforced to compete or develop certain industries such as Wuxi city with respect to the pharmaceutical and heavy industry; TianJin city was boosted to build up a trade port, where many western businessmen heavily invested and set up their own representative offices here. Such cities are normally equipped with modern infrastructure and the best public transportations that can simplify lower operating and logistics costs. (Frasch, 2015.)

Besides, the understanding of China city tier system and where to target is also required and beneficial to take on. Chinese cities are categorized into tiers and the evaluation of city tiers which is based on many factors such as population, income, competitiveness, transportation systems, and historical and cultural significance (Smith 2017). In fact, China has held the record for the faster developing country, and the majority of cities have experienced unprecedented economic growth which has resulted in overall unbalanced China market. But we cannot deny that city tiers matter; dividing China's cities into different areas tiers that categories the advantages and the disadvantages of potential decision making; illustrating regional consumer behaviors, salary levels, and opportunities (Smith 2017). For foreign investors, it can be surely seen as one of the most effective ways to structure your marketing strategy and turn it to fit in both the local conditions and potential business opportunities. As statistically indicated, China's first-tier cities are Beijing, Shanghai, Shenzhen, and Guangzhou. The Second-tier cities consist of coastal cities like Xiamen, Tianjin, and Wulumuqi, while the third-tier cities are usually small or medium sized cities which have less political and economic power and fewer opportunities. (Smith 2017.)

Foreign companies should be well-prepared and have done sufficient preliminary location analysis to decide which city fits best, which geographical market has the most potential for future business growth and where their competitors are located in China. In recent years, there are certainly more business potentials cropping up in the second-tier cities, while the challenges of doing business here are usually easier than in the first tier because of lower labor costs and rapid market growth. Hence, it is definitely an error to put all eggs in one basket that disregards second or third tier cities thoroughly.

Three major cities

The vast bulk of business in China is centered on the major cities and economic zones. *"China is not the center of tech world, but with a manufacturing and consumer electronics powerhouse like Shanghai, Shenzhen and Guangzhou, it may as well be"* (Yakowicz 2015). The eastern part of China contains the largest and wealthiest cities, also holding most of Chinese manufacturing hubs. Central China is bond to agriculture development and light industries. The most three

wealthiest and most important regions are all on the east coast: The Pearl River Delta (close to Hong Kong), the Yangtze River Delta (surrounding by Shanghai), and the Bohai Bay regional nearby Beijing. (Asialink Business 2018.)

As mentioned above, choosing a business location is extremely important because China contains 33 provinces and 2 administrative regions, so it is technically impossible to cover the whole map of the country. Therefore, we consider only three typically popular cities that will be drawn to marketing pool of conducting research and analysis: Shanghai, Shenzhen, and Tibet, all of which are large and fast-growing cities that rank the best economic performance based on the key indicators, such as, foreign direct investment (FDI), income statement, growth input and output. They have been increasingly attracting potential foreign investors compared to other cities in China.

Shanghai

Shanghai has a prominent history widely regarded as one of the famous Asia's hubs, and the city that oozes international appeal. Nowadays, it is the commercial center with the perfect urban scale and freight transport, known as the most cosmopolitan city in China. With more increasing economic opportunity, it has emerged as a place where foreign investors want to create and do business. (China Daily 2017.)

According to a statistical report on the San Gabriel Valley Tribune, Shanghai has successfully lured up a total of 790,000 foreign investment projects last year (Eisen 2015). This is due to the fact that local government in Shanghai has made it much easier for foreign investors to run business there through the launch of the Shanghai Free Trade Zone (SFTZ) in 2013 (Eisen 2015). The zone cancels out a number of financial requirements for setting up a company in China, *"including the minimum registration capital of 5,000 dollars for limited liability companies, the 15,000 dollars minimum for single shareholder companies and the 785,000 dollars minimum for joint stock companies"*. Among other things, under the umbrella of free trade zone, *"foreign investors are no longer obligated to contribute 15 percent capital within three months and full capital within two years of the establishment of a foreign invested enterprise"*. (Eisen 2015.)

The main purpose of SFTZ is to offer advantageous benefits for domestic as well as foreign investors. It offers also generous visa assistance for business investors that those who work in the zone can apply for a private residence permit up to 5 years (China-Britain Business Council 2014). Moreover, the length of approval for foreign business under SFTZ regulations has been shortened within two weeks instead of regular few months. The incentives gained through trade zones such as the one in Shanghai make it easier to grow and expand in China. The zone was initially launched as a pilot zone for intending China's opening-up reforms that aim to reform current national economy into less export-oriented. The China's first special economic zone was established in 1980 in Shenzhen, nearby Hong Kong. (China-Britain Business Council 2014.)

Shenzhen

For those who never step into China looking for the best city to set up a company, the gate of southern Chinese city of Shenzhen may not be as familiar as the cities of Hong Kong, Beijing or Shanghai, but it is a humble and migrant city. When it comes to prime business location, both for living and company set up, Shenzhen takes the priority to be considered! It locates right on the eastern side of the Pearl River Delta region that strengthens its sprawling geographically location even further by the cities that surround it. In addition, Shenzhen is a doorway to the rest of Asia as its ports and location present.

About thirty-five years ago, Shenzhen was a relatively small fishing town nearby Hong Kong. In 1979, the leader of China's communist party Deng Xiaoping designed this city as the country's first Special Economic Zone (SEZ), allowing Shenzhen to open up to western investments and market capitalism (Yakowicz 2015). Over the decades, the boomtown has been gaining a lot of steam and now it has become one of the fastest-growing cities in the world, with about 12 million residents, which is considered as the southern China's financial capital and is home to the Shenzhen Stock Exchange, massive high-tech international firms, startups, and alike. Since it has a global-class manufacturing hub, Shenzhen has been ranked as a top in the list of "Global cities of the future" (Yakowicz 2015). If you just kick up a new idea or product and ready to off the races, but have trouble

finding a place where the ideas can be transformed into the reality more effective and affordable, Shenzhen may be an ideal place.

Thanks to the proximity and accessibility of front-line manufacturers, countless resources abundances, and relatively affordable labor costs, Shenzhen is therefore well-known as the Silicon Valley of China. Here, the city has a huge variety of electronics markets, the largest of its kind in China, where foreign investors and purchasers would never find it difficult to get in contact with a supplier or a manufacturer, such as Futian District and Huaqianbei commercial street. These places take up almost 90 percent of the world's electronics, shippers and expert packing. (Yakowicz 2015.)

In 2010, the launch of the QianHai Special Economic Zone (QSEZ) within Shenzhen has been set up to encourage foreign investment in modern industries such as finance, science and high-tech logistics (Lee 2016a). With many types of intriguing subsidies and benefits, it is worth exploring of one's business dream in Shenzhen.

Tibet

Tibet is an unworldly place, with deep blue skies with low wispy clouds and sunshine: large-scale of grassland, living with tons of yaks; flat snow-covered deserts. It is a religious and overwhelmingly spectacular heave with lama-filled monasteries, and nomads. Over the decades, it has been modernizing and developing rapidly and now has many connected trains that operate in and out of Tibet region to different parts of China. In the past, it could hardly be reached and was regarded as an unthinkable region in the direction of business. Besides, many people still dream of Tibet as a mysterious, enchanting place that has a deeply spiritual way of everything than anywhere in the world. Indeed, it does have a prominent name Shangri-La sited "on the top of the world". (Hays 2015.)

Tibet has been a religious area that fairly coexisted with China under varying degrees of autonomy and control. Since the 1950s it has been under the direct control of Chinese government and is administrated by Beijing as the Tibet Autonomous Region (TAR). The Tibet economy rocketed up to annual rate of 12 percent over the past seven consecutive years. In 2007, the local gross domestic

product (GDP) was about 4.88 billion U.S dollars, about 12,000 yuan per capital-double the figure in 2002. Despite the miraculous development, Tibet is still in its infancy and remains to be seen as the most behindhand region due to tough natural environment and wobbly economy. It has been banking heavily on investment (Shijun 2017). Tibet's foreign trade has also increased, moving up to 397 million U.S dollars in 2007, a rise of 36.9 percent from 2006, fueled primarily by the launch of regional railway and other campaigns. These projects are carried out by several foreign countries in exploring the expansion of solar power and battery storage development (China Trade and Investment 2010). In addition, there are more business opportunities related to high tech field opening up to the world

Tibet has put forward to develop into user-friendly business and commerce. It also enjoys investment benefits in terms of Foreign direct investment (FDI) (China Trade and Investment 2010). Besides, it is worth mentioning that it is not like any part of China and certain precautions and preparation in terms of regional business regulations and procedures need to be taken.

General analysis

As the world's second largest economy and a crucial business partner of many nations, China represents a huge growing market, full of potential. The economy growth of China has seen the rise and the expansion of cities all across the country, so it is an obvious choice for any foreign investor taking off their business in China. Indeed, some cities like Beijing, Shenzhen, Shanghai or any first-tier city grow faster than other cities in terms of business development, cultural and historical significance, as well as input or output index. However, the ranking of city tier alone does not stand and guarantee the success of broaching the Chinese market. Instead, it depends on many aspects, such as customer segment, geographical location, currency, specific requirements, regional policies and laws, financial capital and so on.

By 2015, China's growth is getting a slowdown. It is mainly due to the fact that China's economy gets larger and slower by the trading wars between nations that makes it even harder to sustain. Size and location matters. The overall growth

rates and engines that differ from region to region, and sometimes, local growth trend differ from adjacent regions. (Wong, 2018)

The decision whether and where to locate in China is of much greater complexity, and the process of making a decision that may take a long time but worth spending time in flattening out a vital business location for a long-term perspective.

2.2 Different ethnic groups

Identification

“The concept of being Chinese is not based on race” (Fogel 2010). Rather, it is about cultural value and belongings. In short, to speak and behavior like a Chinese is to be Chinese. When foreigners talk about the people of China, they often simply define them Chinese. But most probably have no knowledge that is oversimplification. In fact, China is made up of 56 distinct ethnic groups. Most Chinese refer to themselves as Han (In Han dynasty, a great historical period in history). Throughout war and history, small ethnic groups that integrated with Han Chinese community have gradually adopted to Chinese culture and became a part of the whole nation. This mainstream continues over and over, at the same time, the legal constitution and law enforcements designed to protect the rights and culture of the minority. (Fogel 2010.)

As a large and united multi-ethnic nation, Han Chinese constitutes an absolute majority of China’s population, while the minorities nationalities represent a comparatively small proportion of 10 percent of total China’s population. (Oguzhan & Fan 2011.)

Many ethnic groups have distinct differences from other minorities and from Han Chinese, but there are also some similarities among them in certain degrees. China has officially claimed that over 80 percent of minority nationalities living in the frontier area primarily closed to the borderline surrounding by many geographically neighborhood countries, such as North Korea, Mongolia, Thailand, Kazakhstan, Myanmar, Russia, and Vietnam. *“If any of which become hostile toward central government it could affect China’s national security”* (Fogel 2010).

Regarding proactive solutions, Chinese central government has established ethnic autonomous regions of different administrative levels that based on the areas in which the minorities live, of which the main purpose is to preserve the harmony and the stability of inter-relations among different ethnic groups. (The Chinese Mission to the UNOG, 2003.)

The largest ethnic groups

As mentioned above, there are 55 ethnic groups other than Han Chinese, 44 of which have their own autonomous regions (Oguzhan & Fan 2011). Each region has its local government that is entitled to a range of rights including: *independence of finance, independence of economic planning, independence of arts, science and culture, organization of local police, and use of local language*, in accordance with the law of the people's Republic of China on Regional national Autonomy (Fogel 2010). The largest ethnic minorities in China are Zhuang (16 million inhabitants), the Manchu (10 million), the Hui (9 million), and the Miao (8 million), the Uyghurs (7 million), the Tibetan (5 million), and the Koreans (2 million). (Oguzhan & Fan 2011.)

In 2011, according to Oguzhan and Fan, the research studies of ethnic autonomous provinces in China (2011), have indicated that those ethnic minorities locate inland provinces of China that shows slow economic growth compared to those in coastal regions. This is because of topographic advantages. On the other hand, although China is an ethnic-diverse nation, the efforts of foreign investment and infrastructure construction are significantly overlooked in all of these autonomous regions. In short, it is a negative relationship between ethnic diversity and economic growth across the country. (Oguzhan & Fan 2011.)

Three largest minority groups in China

This study points out only three different ethnic groups Tibetan, Uyghurs, and Manchus as the representatives to underlying similarities and difference because of the complexity and complication of collecting data and furthering investigation. Three of them present the three largest minorities among 55 ethnic minorities groups in China.

Tibetan

“Tibet has been the home of a subsistence agriculture and herding economy”. (Hays 2015). The traditional Tibetans mainly focus on animal husbandry and farming; the sheep and yaks are the main livestock, while highland barley is the main crop across the year. In the street, the most common vendor business are buttered tea and Zamba (roasted highland barley) all over the corner of the city. In addition, Tibet is rich in natural mineral resources, including numerous amount of hydropower and terrestrial heat for generating electricity, and encompassing diverse of natural gas, copper, coal and sulfur. (Hays 2015.)

In the countryside, Tibetan farmers work almost every day of the week. They are fond of a stable and self-sufficient life and have less concerns than urban residents living in town. They can only produce certain type of foods such as barley, turnip and potatoes due to geographical and environmental distinctions. Apart from that, raising cattle has been the subsidiary business for most of peasants (Hays, 2015); on the opposition, urban residents who pay more attention to dressing, appearance and lifestyle.

Currently, Tibetans still hold a wide variety of traditional trades, which include Buddhist painting (Thangka), canvas painting, rope braiding, textile production, and fiber processing. Some individual household and small-scale factories sometimes produce the printings of religious manuscripts and books to sell, which is popular at the monasteries. Since the supply chain development and logistics system goes up well in certain areas of Tibet, many local companies start off exporting raw materials and importing manufactured products out of Tibet. They go over to India, Nepal and other countries in central Asia by exporting large-scale of animal products, herbs and other products that only grow in Tibet in exchange for the same equivalent commodities or foreign currencies (Tibet Vista 2018). Interestingly, many well-off Tibetans are traders that have a numerous numbers of livestock animals, which indicates animals have been a sign of wealth in Tibet. Some of whom display their wealth by either showing the animals they have or wearing the clothing made of tiger or leopard furs. (Hays 2015.)

In Lhasa, the capital city of Tibet Autonomous Region, where most of business are actually owned by Han Chinese, with few Tibetan employees or customers. Tibetans believe that Han Chinese have better connections or networking (Guanxi) and know more business sense and tricks than them. As old generations of Tibetans say, "they know how to succeed in business, we Tibetans do not know how to do it and have no mind to stick up for price game". This is perhaps Tibetans have not been very ambitious. (Hays, 2015)

Uyghurs

The Uyghurs, are the Turkish Muslims who live primarily in Xinjiang province, which is the second largest Muslim community within in China followed by Hui minority. They have different features from the Han Chinese in terms of region, culture, and language. The Xinjiang Uyghur Autonomous Region (XUAR) locates on China's northwestern frontier and it is considered as the country's largest administrative region (Austrian Red Cross 2016). The Uyghur region lies in a great location of central Asia; it borders with Mongolia, Russia, Kazakhstan, Tajikistan, Afghanistan, Pakistan, and India. Not only is Uyghur community included a convenient position, it also has a unique geographic environment, rich in natural resources with a blissful climate. Its arid condition of environment has helped to preserve underground antiquities and treasures, innumerable cultural relics and dry fruits and plants. (Kamberi 2005.)

"The Uyghurs have made significant contributions to Asian literature, medicine, dance, music, and fine arts". Their primary economy is heavily dependent on light industry and on the farming of fruits, cotton, wheat, and rice, exporting them to the rest of China with a robust logistic supply applied. In addition, Uyghurs-land is also famous for regional oil and mineral reserves (Kamberi, 2005). Uyghur have traditionally been herdsmen, farmers, craftsmen and traders. Normally, the women are engaged in embroidery making or weaving rugs. In the old neighborhoods of Urumqi, the largest and the capital of Xinjiang province, Uyghurs used to run small shops out of storefronts attached to their homes (Hays 2015). Since the rules of demolitions to tear down the old neighborhoods into stylish apart-

ments applied, they choose to move outside and then continue their own traditional business. Some sell raisins or seasonal fruits from Xinjiang in almost every city of China.

Furthermore, for Uyghur job-seekers, it is arguably required to have a good command level of Mandarin Chinese in order to be considered for a position. As of 2009, about 1.5 million people from Xinjiang had migrated to more modern and prosperous cities like Shanghai, Beijing or first-tier city. And most Uyghurs choose to earn enough money at a big city then return home to Xinjiang. Most commonly, the Uyghurs run halal kebab restaurants or special halal supermarkets outside. (Hays 2015.)

Manchus

Manchus Autonomous Regions (MAR), are widely distributed over provinces like Liaoning, Heilongjiang, and Jilin, and the rest of them primarily in Hebei and Inner Mongolia, which is normally resided in the northeast of China. It is well known that Manchus excelled at many outdoor activities, such as horse riding, fishing, and wild hunting in history. In addition, falconry is still popular among new generations who are into eagle training. Back to Qing dynasty, they used to have their own script and language, belongs to Manchu-Tungusic language family. As the Manchus moved tighter with China in past times, they gradually begin taking on the language and written characters of mandarin Chinese and soon adopted Mandarin Chinese as the main spoken language. (Huang 2012.)

In the traditional society of Manchus, the eldest of the family is the person who is in charge of everything at any time. The elders are considered as the most experienced and wisest veterans with a high level of respect back to Qing dynasty. At most meetings, men and women should kneel down and keep both hands on other side of knee while they bow to the elder. They would greet each other with a warm hug among friends. Unlike many other minor ethnicities, the women of Manchus were more assertive and dominant within their culture. Also, unlike many of ethnic minorities, in a culture where business relationships can be made or broken, getting drunk with a potential business partner is often viewed as a

vital way of reinforcing that business decisions can come out of it. It is also regarded as a way to prove whether you are trustworthy. If keep drinking, it will be seen as a symbol of friendship because you are willing to get drunk with them, just like you would with your friends. (Elliott 2013.)

Among Manchus, drinking is not limited and drinking with a business associate is a standard part of social engagements that is to be brought into their inner social networking (Livermore 2015). Until today, many still believed that drinking with whomever you like can deepen and strengthen friendships because it helps both parties communicate and relieve misunderstandings, no matter how extreme the situation might be.

2.3 Hofstede theory

“National culture cannot be changed but you should understand it and respect it”. (Hofstede Insights 2018.)

Professor Geert Hofstede has successfully conducted one of most comprehensive studies of how values in the workplace are influenced by diverse cultures as an important stepping-stone in this research field. He has clearly defined culture as *“the collective programming of the mind distinguishing the members of one group or category of people from others”* (Hofstede et al. 2010, pp.19-20). Therefore, understanding the ways how different groups of people think, act, and feel is an approach for coping with common problems and challenges that can work as a basis for mutual awareness.

“Culture as mental programming”. Everybody starts himself or herself learning process of thinking, feeling and acting since the early childhood, because at that time a human is most susceptible to learn new things and to assimilate them as well. As soon as certain basis of self-learning and behavior established, the human’s brain has ability to collect life experiences from the outsides, such as family, school, workplace and living community. The sources of mental programs lines within the social environments in which one grew up and collected one’s life experiences. (Hofstede et al. 2010, p.22.)

Culture derives from the development of human's social environment rather than merely from personality or human nature (see Figure 1)



Figure 1 Three levels of uniqueness in human mental programming (Hofstede et al. 2010, p.22)

Human nature is regarded as the *operating system* that functions physically and mentally, which is inherited within our genes (Hofstede Insights 2018). The human ability to work themselves up; the necessity to integrate with environment and society and to communicate with others all belong to the same level of mental programming. However, the whole human nature automatically connects with culture.

The personality, represented as personal uniqueness, is based on partly inherited within the individual's genes and partly learned by the general influence of culture (Hofstede et al. 2010, p.23.)

The Hofstede model of national culture consists of six dimensions: Power Distance, Uncertainty Avoidance, Individualism/Collectivism, Masculinity/Femininity, Long/short Term Orientation, and Indulgence/Restraint (Hofstede Insights 2018). It brought a distinct quantitative and comparative research to the study of world cultures by identifying and measuring defining in different aspects (Hofstede 2011). Each cultural dimension represents independent preference for one value of affairs over another that distinguish countries cultures (rather than individuals) from each other. In addition, every country scores on the dimensions are relative, in other words, culture can be used by comparison. (Hofstede 2011.)

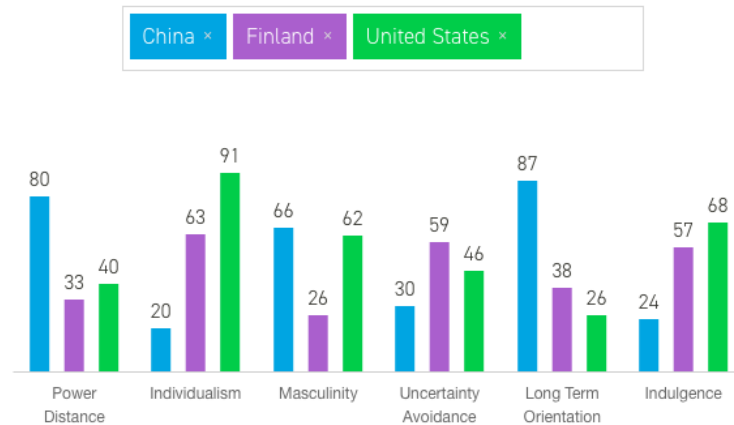


Figure 2 the difference of six Hofstede's cultural dimensions in China, Finland and United States (Hofstede Insights 2018)

Power Distance

Power distance index is defined as *the extent to which the less powerful members of institutions and organizations within a country expect and accept that power is distributed unequally* (Hofstede 2011, pp.6-7). This represents the level of equality and power are unequally distributed from the basic elements of the society, such as the school, the family, to the organizations: living community, working place and governmental associations.

Hofstede identified a distinct difference between high-power distance and low-power distance that are generally characterized by large hierarchical gaps among people on the basis of elements such as sex, age, and social status (Chen & Starosta 2005). As indicated in Figure 2, the value of PDI of China ranks at 80, which has more than doubled compared to Finland ranking 33 and USA 40. It is basically because Chinese society tends to be more centralized in power among superiors or high-level officers only and observes no challenge disparities to power unequally distributed.

These data also manifest that the approach for decision making within different culture requires different preferences (Andrew 2016). In some low-power distance countries like Finland and USA, managers prefer handling decisions individually or appointing to the certain personnel who has been evaluated reliable and trustworthy to take the position. In contrast, foreign investors experienced extremely hierarchy than any other Asian countries in China. This is because of

strict regulations and documentary inspections required by centralized government, while the absence of consultation with subordinates, and low transparency and openness, which defers decision-making process that taken by many levels of national and local officers before handing over to the management field of the company per se. In addition, as a foreign business entering the Chinese market, working as a manager or investor, you need to respect and honor those who rank higher or those with higher status than you in the Chinese company or at any sector.

Individualism

It refers to the one side of its opposite, **collectivism**, is *the degree to which people in a society are integrated into groups*. It has to do with whether people's self-image is defined in terms of "I" or "we" (Hofstede 2011, p.9). The majority of people living in societies in which the interest of being more collectivistic prevails over the interest of being individualistic. On the collectivism side, family structures established deeply in mind as to those children who grow up with a number of closely people (grandparents, cousins, aunts, etc.). They have learnt to be in a group of "we" instead of "I". From the bar chart above, it can be seen that China only scores noticeably low in individualism (20 out of possible 100) compared to Finland (63) and USA (91), from which demonstrates China appreciates a highly collectivist culture where people take strong responsibilities to both friends and families and bring unquestionable loyalty into the group. On the other side, individualistic people more intended to look after themselves and their own nuclear family only, acting based on personal or voluntary decisions, which resulting in declined emphasis on cooperation. More preciously, in the west the integration into groups does not play such a big deal as it does in China. (Andrew 2016.)

In business world, with far more emphasis on group-oriented society, Chinese think group loyalty plays the highest role upon any personal rewards and achievements. Consequently, nobody can claim the reward for himself or herself but the work of the whole group. Whereas group considerations have some negative effects: hiring and recruiting new employees with whom have connections inside of groups (friends, families or neighbors) treated with privileges, considering primary

promotion and pay raise are given to whom have close relationship with the management of the company or the government.

Masculinity

Masculinity versus its opposite, Femininity, *refers to the distribution of values between the genders which is another fundamental issue for any society, to which a range of solutions can be found*. Masculinity defines a society in which men's values: assertive, materialistic and competitive; women are supposed to be tender, caring, and modest. While Femininity stands for an overlap society, in which both genders should be modest, tender, and caring with the quality of life (Hofstede et al. 2010, p.12). China ranks 66 is considered as a masculine society driven by competition, assertiveness, and success in general, whereas Finland (26) thus interpreted as a typical feminine country where the stress more focus on the value and the quality of the life. Notwithstanding between China (66) and USA (62) is no big difference, but there is a significantly distinct cultural differences between the business practices and organizational style of the West countries and China (the Minister of Agriculture and Agri-Food in Canada 2014). Having said that, the masculine end of spectrum in west thinks cooperation or in-group decision-making should be made out individually and independently. In contrast, Chinese society insists upon high preference for cooperation, as to avoid uncertainty and maintain group harmony.

Another important difference between China and the west regarding this masculinity scale is that the different attitude toward conflict resolution (Andrew 2016). As we all known that, China is bond with collectivist culture and strongly emphasis on group preference and personal relationships: they attempt to avoid any conflict and integrate with social bonds in order to handle business well. When some kind of conflicts threaten to become public problems, the Chinese might prefer either lean upon official authorities or the third party to suppress it.

Whereas western managers and leaders, who are prone to draw upon towards the individualism solutions, combined with their tendency to a medium masculinity on the scale of this dimension, are more predisposed to direct confrontations. (Hofstede 2011, p.14)

In addition, Chinese employees can accept long working hours and are versatile in many different offers anywhere rather sacrificing family and personal leisure time to achieve great things for their future life and next generations. This is an issue that foreign companies should be aware when drafting an employee contract in China.

Uncertainty Avoidance

It refers to the *extent to which the members of a culture feel threatened by ambiguous or unknown situations and have created beliefs and institutions that try to avoid these*. Uncertainty avoidance is not same idea as risk avoidance; it is more likely to deal with unknown situations, which is new, different, strange, and odd than as usual. On this scale, Chinese and Westerners come out at quite different outcome of this dimension (Hofstede 2011, p.9). Finnish (59) and Americans (46) have a higher tolerance for uncertainty than the Chinese (30) do. This means Chinese feel more comfortable with ambiguity and chaos, accepting new un-instructed situations instead of avoiding them.

Unlike western perspectives, who have been animated by a spirit of adventure, informed by the perception of taking risks at business journey (Andrew 2016). Chinese business managers are often reluctant to make any changes when they perceive uncertainty taken place. In reality, the majority of them prefer taking relatively safer options rather than missing out a potential business opportunity. As the old Chinese proverb says (Liu 2015): to avoid uncertainty actually is to recommend such reticence as prudent. This is very much the opposite way of western managers doing business: they are more likely to consider risky projects as a natural part of business process, which involves in creating a new business market, adopting obstacles as well as pioneering new customers.

Long-term orientation

This dimension refers “*how every society has to maintain some links with its own past while dealing with the challenges of the present and future*”. The research of Hofstede has divided it into two existential goals differently (Hofstede 2011, p.13). The first society with low score on this dimension, people would more prefer to maintain its past traditions and norms in high regard while viewing the changes

with suspicion. For example, Finland (38) and American (26) scored in an extremely low which can be classified as short-term orientation societies compared to Chinese (87) ranks extremely high. Those with a culture which scores high, meaning the society tend to be persistence and perseverance, and also believes good results depends on how much effort and time you invest in. In Chinese society, business negotiation is a time-consuming project because they consider only time is a bridge to build up long-term relationship with partners. As Chinese normally say “一步一个脚印”(meaning in English: step by step).

China is a very long-term oriented society. This influence on how Chinese doing business in reality; they are willing to work for a long time to achieve the goals and invest in things that tend to be sure for long term. For example, German products have long durability and permanence, which are the most appealing and attractive imports in the Chinese market.

Indulgence

The sixth dimension is defined as *the extent to which people try to control their desires and impulses* (Hofstede 2011, p.16). The opposite of indulgence is a relatively strong control noun called restraint. This dimension looks at a culture's tendencies regarding the fulfillment of desires. The countries with high score in indulgence are more likely to express their impulses and to desire a relax lifestyle such as in Finland (57) and USA (68), whereas the countries with low score tend toward restraint and often pessimism (CQ fluency 2017). China, with its rating of 24, reaches at the end of the spectrum. People in this society have the perception that their behaviors and actions are restrained by social norms and feel that being indulged is completely wrong.

On this dimension, Chinese employees working at foreign companies often find that foreigner's attitude toward the work would be seen as lazy and unprofessional from their perspectives. For example, foreign companies from high score indulgence countries operating business in mainland of China might misunderstand Chinese work environment and regulations; Chinese employees seem not quite optimistic to any jokes or unrelated topics that foreigners made during the formal meetings.

On the other hand, restrained societies do not put much emphasis on leisure time and express their desires. Chinese companies working abroad, especially at those high level of indulgence companies, struggle to find employees whom meet their work ethics and standards. (CQ fluency 2017.)

General analysis

In respect to the analysis of Chinese culture in Hofstede's cultural dimensions, it is found that there is a high score on power distance, long-term orientation, and masculinity, while low on individualism, uncertainty avoidance, and indulgence. Chinese business culture and values are explained at end of each dimension and are found to be very different than in the western cultures like in Finland and the United States. Therefore, foreign managers, or any individuals from western countries must be aware of culture clashes or differentiation from China, and should also respect disparate cultural values, such as social networking, Guanxi, Mianzi, employee motivation and loyalty.

Lastly, it is imperative for everyone doing business aboard to consider "*the differences in light of cultural relativism instead of using etic procedures to establish judgement according to home culture*" (CQ fluency 2017). There is no doubt that some cultural dimensions are way more difficult to understand than others because of the language and culture barriers. The Chinese culture and language that should have driven your alert that these six cultural dimensions can be fundamentally essential to learn before building the relationship with the Chinese.

2.4 Guan Xi—networking the Chinese way

As it indicated before that China is a collectivism country, which means Chinese people more depend on the people around them than westerners. This does not mean that Chinese are not individualists, but they are just more prone to the idea of building a strong network of deep relationships between people and organizations or called Guanxi. (Johan 2010.)

Guanxi is one of the most important concepts to master for anyone planning to do business in China, but most of time it has been misunderstood as a negative term because of its potential connections with bribery and corruption, which vary

depends on how to build Guanxi in practice. Guanxi is built through commitment and thoughtfulness (Johan & Anders 2010). It follows the idea of reciprocity, which means that each member of the relationship has the right and duty to rely on each other and help in return. (Graham & Lam 2003.)

Guanxi plays a far more significant roles in China than it does in the world. In the western world, you might be able to solve mutual conflicts through formal business meetings or negotiations; in China, it is advisory to spend much time with your business counterparts having more informal dinners or tea breaks instead of organizing more meetings (Anthony & Matthew 2011). The depth of Guanxi developed can not only lead your business prosper, but also find new opportunities in the nearest future.

Since business competition increases in China, people are trying their best to create a social circle of Guanxi in order to get more doors open for them in fostering their business development to be more effective and appealing in the market. While as a foreigner, you will need to develop your personal Guanxi with your coworkers or local authorities, or any other organizations if possible. This does not mean you must bribe or corrupt to exchange “services or privileges” from which you expect. It simply means that keeping a good relationship with them will make business go through easier but not a pass to everything. At the same time, foreign companies will need to keep adapting Chinese customs, since the rules of business in China are different from those in the west. The head of foreign companies should recognize the difference before they start addressing Guanxi.

2.5 Mian Zi—making other people look good

“The pervasive Chinese concept of gaining/giving or losing face (Mian zi) focuses on questions of prestige and dignity and reflects surprising vulnerability in self-esteem.” (Tim et al 2009, p.84)

When entering the Chinese market, two of most predominant concepts to grasp are Mianzi (face) and Guanxi (networking); both of them somehow correlated in most cases. As Guanxi has been depicted in the chapter 2.4, so this chapter focuses on Mian Zi only. The concept of Mian zi is showing that you care for another person: by backing up when asked, by listening and giving appropriate

response, and by pleasing somebody in a good mood in front of other people, especially superiors or high-status persons.

Face can be split into two different situations (Tim et al 2009, p.84): gaining face or losing face

- Gaining face- complimenting someone by putting he or she look good in front of other people
- Losing face, the opposite of gaining face, causing someone humiliated in public, or criticizing the weakness or the mistakes of her or him

In Chinese business circles hierarchy is obviously prominent that most of other Asian countries; the distinction between different levels of employees is much clear and a must to be alert (InternChina 2016). In a Chinese company, subordinates usually listen to the superior without questions or interruptions, respecting them is observed as well. When dealing with the boss or someone who has a higher position than you, you should always remember to keep them face up and ensure that they are looking good in front of business counterparts.

As experienced, many Chinese businessmen are often scared to talk with foreign partners unless an interpreter is present, because they might not be confident in their second or third languages and fear that they will probably lose face and make mistakes in speaking, that is bringing a shame to him or the company in which he is working. If come across this kind of situation, please assure to give some accomplishments to their language or negotiation skills, and encourage them to be more comfortable around you, which are the common way saving their face. (InternChina 2016.)

2.6 Business culture in China

“As Chinese business culture is rooted in a distinctive, philosophical, and cultural heritage dating back thousands of years”, many foreign investors find it challenging to understand Chinese culture values and managerial ideology (BenCham ShangHai 2016, p.1). In recent years, the business culture in China has been evolving due to the economic, political, and social changes. Since Chinese and Western business cultures are quite different, therefore, the understanding of the

behavior of Chinese culture and business partners can be dramatically useful for those who are doing business in China.

2.6.1 The historical background

There are three pillars of Chinese culture: *Confucianism, Taoism and Buddhism*. Chinese has more than five thousand years of history and culture, including more than two thousand years of uninterrupted influence of Confucianism, Taoism and Buddhism (BenCham Shanghai 2016, p.2). Although differing in many ways, Confucianism, Taoism and Buddhism sharing the same fundamental elements and influencing today's Chinese cultural values and transitions.

Confucianism

Confucianism is unquestionably the main force that influences Chinese culture the most. It is the behavioral or moral doctrine based on the teaching of Confucius (551- 479 BC) with regard to human relationships, social structures, human behavior and work ethnics. The foundations of Confucianism focus on loyalty, honor, sincerity, and duty. At the same time, "*the most prominent legacies of the Confucian doctrine are the high-power distance and hierarchical relationships in Chinese society*". Since then, ranking is becoming extremely important in business relationships in China, especially when dealing with the local or national government. (BenCham ShangHai 2016, p.3)

Taoism

Taoism is an important concept, which is represented by Lao Tzu (604-531BC). He proposed that people should be able to observe fundamental principles while adapting to new changes or adventures. Tao stressed "*the importance of action through interaction, of letting go and not resisting nature's way achieving balance*" (The Economist 2001). Taoism is consistent with a free-market economy, and even offers a way of explaining it. (BenCham ShangHai 2016, p.3)

Buddhism

Buddhism is originally from India, widely spread in China in the early centuries AD. One of concepts of Buddhism related to business is "Yuan". Meaning "*the*

predetermined principle that dictates a person's relationships and encounters" (BenCham ShangHai 2016, p.4). Chinese consider the relationship with another person or party to be very important. They even consider their business failed because of the lack of Yuan.

2.6.2 Advanced business etiquettes

Understanding Chinese business culture is crucial for expanding your business operations in the Chinese market. It also makes sense for foreigner to learn proper etiquettes before venturing into business in China.

Business meeting

In order to ensure effective communication and productivity it is suggested to keep in mind as follows:

- Speak slowly – foreign managers might be used to speak fast and quick in a normal business environment. However, if having meetings with Chinese counterparts the conversation has to be translated. Please be in mind that speaking slowly ensures your translator can deliver your information accurately. (ECOVIS China 2014.)
- No interruption – In the Chinese culture, this is not appreciated to raise questions and add your opinions when the leader from the Chinese side is giving the speech. Rather listen carefully and respectfully until the speaker finishes what he or she has to say. (ECOVIS China 2014.)
- Have your own translator – there are many companies in China offering translators for business meetings. Before hiring any of them, it is wise to verify their English proficiency and to confirm if they have experience translating for any foreign companies. (ECOVIS China 2014.)
- Seating arrangements –business meal is very important part of doing business in China. It is usually organized in the local restaurants: It is expected to be relatively early at 5 or 6 pm compared to the west. Since the seating is arranged by the Chinese host, please be patient to wait for the host to indicate where you are to sit. (Jeanette & Lillian 2009, p 72.)
- Gift-Giving - Having a lavish gift at the first meeting was popular and important culture in the past. Today the official policy forbids gift giving at

business meetings; this purpose is considered bribery (Jeanette & Lillian 2009, p 72). But it can be an exemption in the Chinese lunar year. Foreign partners could wrap some small gifts in red color as red is regarded as a lucky color; avoid white and black wrappings as they are viewed as mourning presents for funeral. (Jeanette & Lillian 2009, p 73.)

- Dress and appearance – Appropriate business attire for men that include a dark or grey suit with a light color shirt and a tie, while for women a skirted suit or dress would be acceptable. Regardless of the gender, removing the jacket during the meetings and wearing open-to shoes that are considered rude and impolite in any business meetings in China. (Jeanette & Lillian 2009, pp. 73-74.)
- Dealing with conflicts – Conflict management in China is linked to the concern of losing face. Most Chinese companies prefer the use of an intermediary in conflict cases or solve them by using indirect approaches, which confronting conflicts can be seen as the disruption of interpersonal harmony and royalty to both parties. The senior managers strongly believe that with the help of an intermediary not only enables to preserve harmony and prevents from losing face, but also helps to create chances for future business cooperation and negotiation. (BenCham ShangHai 2016, p.13.)
- Negotiation – This will remain a difficult part for foreigners, as cultural differences continue to grow all aspects of the negotiating process. Here are some characteristics of negotiation with Chinese summarized as follows (BenCham ShangHai 2016, p.3);
 1. While the Chinese tend to use strong negotiation tactics, such as bargain, nibbling, time pressure and delay, instead of criticizing directly. Chinese negotiators often attempt to wear business partners down in an effort to obtain concessions by showing feigned disinterest in foreigner's offers. The Chinese will use silence as a tactic in the final negotiation or appear to be stalling the negotiation, which western counterparts may misunderstand this as a breakdown, *"thus causing the latter to make hasty concessions"*. (BenCham ShangHai 2016, p.9.)
 2. Second, in regard to the holistic way of thinking in China, they are used to consider all terms and changes simultaneously in the very

beginning. The agenda of the negotiation process might become a jumping off point from the initial discussion. This is enough to make foreigners frustrated, as westerners tend to the linear way of thinking and agile decision-making. Therefore, patience and persistence are virtually necessary quality for any foreigner to be successful in China. (BenCham ShangHai 2016, p.10.)

3. Chinese negotiation teams are willing to spend long time, weeks or even months, gathering information and discussing all aspects of details before the actual negotiation begins (Katz 2016). Information is barely shared, since Chinese think that undetected information create more bargaining advantages to obtain concessions from the foreigner's side. (BenCham ShangHai 2016, p.10)
4. Most Chinese negotiators are shrewd in bargaining and haggling, who should never be underestimated. In most situations, they try to avoid using aggressive and adversarial manners since caused to lose face. (Katz 2016.)

General analysis

China has the largest population on Earth with its unique and attractive culture that no any single version of acknowledge can explicitly illustrate its culture complexity and uniqueness. Knowing about "Mianzi" and "Guanxi" is generally useful, but it does not assume that this knowledge is applicable to every single Chinese that you will encounter in the nearest future (BenCham ShangHai 2016, p.10). There are always exceptions to every rule. While some Chinese are way more traditional than others, some can be straightforward and direct in handling business with foreigners. In addition, foreigners should have a dynamic perspective in viewing Chinese business culture since the country has just step forward in the middle of a great economy development and social transformation.

Proper respect for business etiquette and customary regulations that can deeply strength the relationship tight and work out a final deal. Business relationships among Chinese business do not come quickly or easily unless the trust is eventually proven.

2.6.3 Human resources management

The hiring, the employment of qualified local staff, challenges that all foreign companies or representative offices in China. What is the difference between employing locals and foreigners? What are the rules and regulations applied in creating a labor contract? What major legal obligations does a foreign company have for its staff? These questions, and more as a foreign investor you should know in advance.

In addition to meet local employment requirements, such as drafting labor contracts, clarifying to meet regional salary standards, identifying social benefits and compensation. The employers in China, both to local and foreign companies, must also abide by strict labor laws and master the challenges of complex income taxation.

Visa requirements

Most foreign companies are likely to manage a diverse and complex workfare, including hiring local labors, local expatriates and foreign expatriates. The employees are the most treasurable assets to the company. It is therefore significantly essential to optimize the hiring process and to minimize costly pitfalls when taking up foreign staff in China.

Under Chinese labor law, the two visas for business and work in China are the F visa and the Z visa. The F visa is normally referred to a business visa. It allows foreign investors coming to China for business purposes but not eligible to be employed at any Chinese company (either domestic or foreign-invested). This visa will be granted to those who have been invited by a foreign company that is registered and established in mainland China. Besides, the period of time for the F visa that solely depends on trade activities, it can be given at the minimum one month to ten years. (Dezan Shira & Associates, 2012.)

The Z visa is refereed as a working visa. It is used by foreigners who are employed by a company that has been incorporated in China (either domestic or foreign-invested) to enter the mainland of China. After being granted a working visa, the foreigners must obtain a temporary residence permit that states legally

work in China upon the arrival. This permit allows the foreigners taking unlimited trips into and out of China during the valid date. The requirement for obtaining a residence permit with special requirements applied, such as work experience, higher education obtained, health checkup, and so on. (Dezan Shira & Associates, 2012.)

Hiring process

In China, the company has three distinct ways of hiring employees; direct hiring, dispatching, and outsourcing. However, it applies with certain rules that must be observed. For instance, it is allowed to hire less than four foreigners to work at a representative office in China, and they should not work directly for the overseas office unless the permit is being granted through labor authority. Another important rule is that the representative office should indicate a chief representative who cannot be an employee of the parent office. (Dezshira 2017.)

Under the Chinese Labor law, Foreign-invested entities (FIEs) can hire employees directly by themselves, while Representative offices (ROs) in China have to set up a contract with a governmental third party named FESCO (Foreign Enterprise Service Company) before they are allowed to recruit Chinese employees (Dezshira 2017). The FESCO organization is an official site, where to aid in labor dispatch and additional business services regarding employment. *This is because “RO does not bring in capital it is not seen as a legal entity in china, creating restrictions for a RO to make use of agency for hiring employees”.* (Lee 2016b.)

Labor dispatch is a substitute option for FIEs to recruit Chinese staff. FIES IS not allowed to sign legal contracts with locals before they obtain their business license. Besides, the number of total dispatched employees should not exceed 10 percent of its total number of employees. However, ROs are not subject to this restriction. Whereas outsourcing is another option for FIEs. It outsources those positions that require specialist skills, a high degree of confidentiality and royalty. (Dezshira 2017.)

3 Introduction of case companies

There are two International companies that are agreed to be present on the thesis research and are willing to provide enough information for the research work. Based on research proposal the regional manager of Coca-Cola Company in Shanghai interested in the thesis research and forwarded some papers and materials helping the needs and requests for research. Another one is a Chinese company where we had done my first work placement last year, based in Hong Kong, which has provided many possibilities of conducting interviews and other contacts.

3.1 Xiaoqian Overseas Study Consultant., Ltd

Established in the year 2014, XiaoQian Overseas Consultant Co., Ltd, Hong Kong, SPC (Special Administrative Region of Republic of China), has been providing overseas educational consulting services to Asian students (mainly focuses on Chinese and Japanese markets) who aspire to study in Europe, such as Hungary, Czech Republic, Austria, Finland, Poland, Norway etc., Starting from the year of 2015, it has set up a representative office in Bremen, Germany, engaging in commercial activities in Europe. (Xiaoqian Overseas Education Consultant Company 2018.)

The company helps over hundreds of applicants to be selected for their dream place to study overseas. The main aim is to facilitate the full range of services that they provide. These services include coaching, mentoring, language preparation, and assistance with visa processes. Additionally, it also offers visa advisory services to the students who have gained places to study abroad and share with knowledge about educational system in which the country they are interested, as well as inform them with various kinds of international or regional funds or scholarship regarding the program that they have applied for. (Xiaoqian Overseas Education Consultant Company 2018.)

3.2 Coca Cola Ltd

Coca-Cola as the largest and the most successful beverage company in the world, providing the customers with hundreds of sparkling and still drinks.

Through the excellent supply chain management and perfect distribution system, Coca-Cola is selling to more than 200 countries that enjoy its beverages at a rate of 1.7 billion servings a day, which is about 19,400 beverages every second (The Coca-Cola Company 2018). The Coca-Cola company, together with its global bottling partners, ranks the world's top 1 provider of sparkling beverages with more than 700,000 employees worldwide. (The Coca-Cola Company 2018.)

In December, 1978, Coca-Cola company broke through diplomatic barriers between China and America, which have allowed it officially to enter the Chinese market. At the very beginning, it was only shipped in to Hong Kong then distributed to the cities such as Beijing, Shanghai, and Guangzhou. Nowadays, the global innovation and technical center in Shanghai is the biggest in Asia and the second largest in the world. (Jinhui 2016.)

Operating in the Chinese market for any foreign company is swimming with the sharks, as China has so many diverse city cultures. Coca-Cola company has decided to launch a diverse of 23 edition cans to be integrated with the distinct character of cities in China (The faces of the cities in China 2018). This is a new step digging deep into each city's culture so that the company would be able to capture the essence of each other: the culture, the characteristics, and the uniqueness, which has created an amazing experience to interact with each of the 23 cities can designs.

3.3 Interviews results and practical recommendations

Critical aspects of business culture in China have been clearly identified and explained through the empirical research. In addition, some unexpected points, and opinions rose up, which are disparate from the theories referred during the research work. Nevertheless, most references we used seamlessly applied to the outcome of the interviews. Besides, the manager from Xiaoqian Overseas Consultant Company has answered all the interview questions, whilst the regional manager of Coca-Cola company did not response to the questions of 9, 11, 13 and 14 because of time limit.

Business culture and location

The first interview with Xiaoqian Overseas Consultant company Ltd went through undoubtedly positive. It further identified the facts and the knowledge that were applied to the thesis work. From a Chinese point of view, our thesis work has firmly revealed basic intro of business culture of taking up the Chinese market that every foreign investor should know and compare with their own knowledge, highlighting business environment, ethnic and culture, foreseeable challenges and the importance elements of guanxi, Mianzi, cultural-based orientation, and geographical location and local recruitment. The first interviewee, Mrs. Feng, who has specially stressed out that it is difficult to figure out the significance of business culture and locations in China to whom they desired to succeed in this giant market. Cultural-based issues are supposed to be considered in advance and then move forward to brand building and expansions in this rapid marketplace.

Because of cultural barriers between Chinese and Western partners, western companies may encounter unpredictable issues while doing business in China. Therefore, the manager also strongly implicated that business culture is learned and shared, in a meanwhile, as a Chinese company branches abroad, they never stop the idea of learning, sharing, comparing and integrating with new values, believes, customs, and systems. Furthermore, she completely agreed with our pinions that setting up a business location should be taken into consideration beyond any other aspect before entering the Chinese market; where to create and run a business idea in China still remains the top to be done. "Since the coastal cities and those special regional zones have opened up reforms and policies to attract additional foreign investment, leading to prosperity in every city of China. On the other hand, it is reducing regional disparities and inequality in business development by addressing such", Mrs. Feng said.

In respect to cultural drivers of Guanxi and Mianzi in the Chinese market, we have had different thoughts towards them. We expressed about the manifest influence that business culture in China has been deeply interacting with these two drivers for many years and that will remind exist when evaluating the Chinese market for foreign investor. However, she held the opinion that the influence of networking and personal relationships (she means Mianzi and Guanxi) will evenly overthrew which is owing to both China's corporate institution and central government have

been recently tightening up this issue: forbidding conducting business on the basis of personal bonds and strengthening the constraints and restrictions. Besides, she explained the drivers of Mianzi and Guanxi in China are no longer the shortcut to succeed in the Chinese market that foreign investors are looking for to build up along the business in China.

The second interviewee was a regional manager of Coca-Cola Company named Robert Johnson, with whom we realized he angled in the Chinese market quite different than us in term of business culture and location. He has presented a general view of the operating environment for business in China through the interview, including awareness of the cultural characteristics and context for business as well as the roles of guanxi and Mianzi. In particular, he mentioned the personal connections in the Chinese market play the main role, which helps the management team understand how to manage business relationships appropriately. He also believes the products only work in China when they are produced locally, therefore, to bear these cultural-based traits in mind when rolling out new programs and ideas accordingly. "If necessary, to hire some Chinese experts or cultural specialists for understating the cultural elements in this market that is the way to get maximum benefits from the activities and minimize misunderstandings", Robert Johnson said. In addition, it is high recommended to get Chinese culture training program which consists of specific issues and practical solutions to the challenges that may occur when doing business in China.

Besides, he keeps a positive attitude towards the future of Coca-Cola. It will remain strong since China has been going through changes rapidly and is still challenging. Economic reforms and opening policies to the west will reshape the entire system. As to select business locations, his opinions were much similar like us: business location in the Chinese market vary from region to region, as does the principles of local support and assistance. In fact, many second-tier cities have been recently boosted up by the Chinese government that presented with much more easy shortcuts and access to invest in, which has actually provided "first-class" opportunities given to emerging engines of the second-tier cities. For all size of companies, the decision where to locate is of much complicated and

complex. However, there are few common traits in choosing a location for business in China, including labor and financial costs, environmental and local policies, market access and expansion, etc.

Culture is only one factor; other factors, such as political constraints, location arrangement, and global economic transformation, are equally important. With the clear and wise mindset in this huge potential market, foreign investors could easily avoid risks and detect with missteps. Besides cultural differentiations, the first advise from them is to narrow down the focus to a specific region that matches to the potential opportunity and to suit localization strategy. Secondly, to expand rather than integrate in order to keep operating as stable companies, which is due to the fact that Chinese companies are extraordinarily competitive and represented by its speed, growth, flexibility, and capacity to deal with a large volume of business and are able to keep up with latest trends. The company is looking forward to jumping further success in China in years to come.

Ethnic minorities and human resource management

China is made up of 56 distinct ethnic groups, including the absolute majority of Han Chinese and 55 ethnic minorities. Each ethnic group is relatively distinct difference from each other, but there are also some similarities among them in certain degrees. The research on ethnic groups was intended to bring attention to the enormous complexity and the dynamics of ethnic China to the outside world.

Mrs. Feng tells that individual entrepreneurs or small-size business among ethnic minorities in China that has contributed a significant transformation in local economic structures and social norms. As Feng explained, the central government of China provides special subsidies for the economic development of some ethnic minority regions, allowing to preserve ethnic culture and to foster the regional development of the education and economy. It is because they were recently moved out of agricultural economy, primarily started working on service sectors right after. Whereas, Mr. Robert has not much information related to ethnic minorities besides Han Chinese, but he admits the fact that an increasing number of employees from different ethnic minorities have settled in Shanghai or other bigger city in China and this trend will remain growing.

According to Feng's knowledge, most people of ethnic minorities have their own business at home or are employed by other ethnic people who run a small factory or business nearby the region. They are mostly related to service-based business, such as small cafes and restaurants, travel agencies, or any kind of regional-catering service. We were curious about the reasons behind why they could not participate in the mainstream of the Chinese business circle. She gave two personal opinions: Firstly, the lack of business experts or talents among ethnic minorities, which has hurdled to success in entering business circle of China; secondly, the networking of Guanxi that many ethnic groups are generally weak in building up connections with official organizations or authorities compare with Han Chinese. Additionally, a good command of Chinese language and social ability would be key essentials for networking and connections with Han Chinese.

One more practical recommendation for entering the Chinese market, from both of the interviewees, is to hire local partners and learn from them. It is more likely to be successful if the local Chinese could guide the foreign investors through the cultural and practical barriers. Not only because they are the local that foreign companies must hire them, but the internal system and cultural values of China have been largely misunderstood or mislead by most Western medias. Besides, it is necessary to hire talented, trustworthy translators who can attend every business meeting with the company and explain the issues in time. And they are probably the people who often make a successful navigation in the complex circle of Chinese business.

4 Summary and discussions

The thesis was to reveal basic intro of essential business culture in the Chinese market which is designed for those who are either planning to establish a business in China or who already have an actual presence or want to know more about Chinese business culture. The primary orientation has provided a detailed reflection of all relevant facts and knowledge in China that affects business culture and environment. It also explicitly explained the significant phenomena of personal networking and potential advanced business etiquettes in all areas of business: Chinese's economic trends, cultural-based analysis, comparison of

business and culture as well as in-depth culture activities, all of which demonstrates a full-covered understanding of concurrent China's business culture and environment.

As mentioned, the thesis is made up of four chapters. The first two chapters of the thesis include a wide range of topics and presented in several different forms namely theoretical framework, literature review and study reflection, which we have managed to cover all information sources. The book materials and online sources present general trends in business culture, Hofstede theory, and other key vital issues. The third part presents the case companies Xiaoqian Study Overseas Consultant Ltd and Coca Cola Ltd and examined the results of the interviews of the companies. The last chapter contained a final summary and conclusion of the thesis.

The thesis consists of two essential outcomes. The first one is mainly focused on previous literature studies and review, known as literature review, and the second part is presented with critical analysis based on the theories that have been referred previously, which is described as a development work. While the empirical research on the interviews was the most important since the results directly reflected to the theories and the concepts that referred to. Unfortunately, the foreign manager from Coca Cola Company was not willing to answer every single question of the interview, instead, general ideas and answers were given out. In addition, during the theoretical construction, the delimitations and the objectives were narrowed down only to the intro of the Chinese business culture for foreign investors entering the Chinese market. Therefore, this thesis contains basic information of business culture of China and left out many other essential elements that also affect the introduction of the Chinese market, due to the restriction and delimitations.

The research of business culture and location in China that have been highly praised by the interviewees, who ranked them as the most priority and essentials to know, which are also regarded as the highlighters of the thesis, which analyzes as the most beneficial bonus to satisfy the foreign investor before establishing a business in China. It is undoubtedly worth investing in to first-tier city or new built-up Special Economic Zones, where they are encouraged new foreign business

flow into these regions based on research results. Apart from that, the side of ethnic minorities business that has not been recommended or suggested to foreign investors because of ambiguous sociopolitical pressures, trade constraints, less flexibility and lower return of investment rates, revealed through the interviews.

At the same time, as to human resource employment in China requires enormous time and efforts, which has brought up more attention to the potential foreign investors regarding hiring process and relocation policies. This is involved to almost every foreign company in China, regardless of size, procedures and nationality.

Furthermore, to be a successful company in China that takes the time to understand the Chinese business culture and the very diverse multicultural market. It requires not just time, but also trust and networking with officials at all levels in China, and also demands to find the regions where foreign investor can make business out of it and prosper. There have been many international firms working in China, such as Coca-Cola. Nowadays, China is still attracting enormous inflow of foreign investments and it will grow even faster in the future. Hence, to monitor the market and to observe the footage of China that will keep business in line and go on.

Overall, it can be seen that the objectives were achieved, and research goals reached out to the expectations. Of course, knowing the basic intro of business culture in the market is never sufficient if desired to be successful in China; but where there is a will there is a way. The foreign investors should pay more attention to the understanding of China's culture, history, geography, socio-economic situations in the future when doing business in China.

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Appendices

Appendix 1: interview questions for Xiaoqian Education Study-Ltd

- 1 Could you please tell about your background and experience working in Germany?
- 2 what tips can you give to western investors for China?
- 3 what are the vital business prerequisites for foreign companies doing business in China?
- 4 what are the common barriers to the Chinese market?
- 5 How to pick and work with local employees in China?
- 6 what are the cultural factors in doing business in China?
- 7 what of the importance of Guanxi, Mianzi and how to interpret them in the Chinese business?
- 8 Any suggestions for the challenges of negotiating in China?
- 9 what advise do you have for those who are planning to establish their own business in the Chinese market?
- 10 what advise could you give it out for reaching the target location in China?
- 11 what opportunities in the future do you see for business in China?
- 12 what is the business culture of China?
- 13 what do you know about doing business with ethnic minorities in China? And have you ever experienced with any of which?

Appendix 2: Interview questions for Coca Cola Company

- 1 could you please tell about your background and experience working in Coca-Cola Company in China?
- 2 How many subsidiaries in China? And what is the total number of employees in Coca-Cola China Ltd? How many of them are locals from China? And how many are expatriates from overseas?
- 3 Could you mind telling about general business environment in China?
- 4 what are the main challenges in culture perspective for local partners to collaborate with Coca-Cola?
- 5 what are the primary facts influencing to the development of Coca-Cola in terms of business culture?
- 6 How Coke-Cola adapts to the Chinese business etiquettes?
- 7 what is your experience in dealing with Guanxi and Mianzi in China? Do them smooth up business development in the Chinese market?
- 8 How important is to organize human resource employment of Coca-Cola in China?
- 9 what are the major facts that influence doing business in China for foreign investors?
- 10 what advise do you have on how to define and reach the target location for business in China?
- 11 what actions should be considered to bolster the business before entering?
- 12 what is the business culture of China? And do you think that is important to know for entering the Chinese market?
- 13 How does hierarchy appear in doing business in China?
- 14 How much do you know about ethnic minorities in China? If yes, what are the main difference and similarities among them in term of business culture?

15 what opportunities in the future do you see for the business in China?