



## Negotiating successfully with Chinese Partners

It can be very difficult, complex and longwinded for a Western person to figure out how to get it right with Chinese negotiators. There are indeed some approaches that are surprising and counterintuitive for Westerners. But once you understand their background in three key areas it's easier to adapt your style. The three areas you should know of are first, Chinese culture, second insecurities of Chinese when they encounter Westerners and third, the economic situation of companies in China. All three backgrounds influence the Chinese negotiation style.

### Chinese Culture

For Chinese, negotiations are like battles. Refined strategies, tricks and even false statements are allowed and required. The key difference is created through building and sustaining a trustworthy relationship. The basic cultural pattern is collectivist behaviour. If one belongs to a collective – be it a family or a network of companies – one enjoys a trustworthy and cooperative relationship. This quality of relationship was required for IBM to strike a deal with Lenovo to sell its PC production business. Belonging to a collective can be 'earned' through longstanding contacts with positive experiences for both sides, through creating favours for the other side or through introduction into a collective by one of its members.

If a company is not solidly networked with their partners, negotiations and outcomes can be full of surprises. Some Chinese habits are present in nearly every negotiation, regardless of the relationship quality – unless you negotiate with those Chinese that adapt their style very effectively to Western standards. Examples:

- Pauses filled with silence – this is a normal part of conversation for the Chinese, helping them to digest what has been heard and to think about the response.
- A negotiation team of 5-15 people (and more if you are in China) with one spokesperson.
- Questions, questions and more questions. It is a virtue of a Chinese negotiator to gather as much intelligence as possible and to repeat questions to ensure trustworthy and consistent answers.

Other behaviours one may find are a result of quite refined strategies. Examples:

- Your opponent emphasises their company's vulnerabilities and small size – resulting from the tactical assumption "give the appearance of inferiority and weakness to make your enemy proud".
- You might observe behaviours like the following, creating a pattern: Your opponent is very interested in detailed information, always has an extra question, a meeting with other members of their team does not materialize as expected you have to reconvene tomorrow, no tomorrow is not possible, it



should better be the day after tomorrow and meanwhile your time in China expires. Delaying tactics are intentionally used on Westerners as the Chinese know everything has to happen quickly in the Western world. To some degree they are the result of another cultural difference: Chinese business moves slower.

## **Insecurities of Chinese dealing with Western Companies**

The Chinese are aware of and proud of their 5000 years of history as a civilization. But they also acknowledge their need to learn from Western companies to catch up with them. This leads to some consequences in negotiations:

The overwhelming use of questions to quench their thirst for gathering intelligence wherever possible, for one.

In order to enter a working relationship with a Western company a Chinese negotiator will sometimes use false assertions concerning their capabilities and their experience. They assume that once they have the contract and the working relationship they can learn fast enough to deliver. Maybe, eventually, but not quick enough to deliver the first merchandise to your warehouse when you expect it.

This behaviour is reinforced by the Chinese's concept of a contract as being a 'memorandum of understanding' rather than an implementable reliable agreement. It is again a feature of Chinese customs and not only applied to Western partners. But while most Chinese business partners enjoy the protection of the collective relationship, often the relationship with Western companies is less responsible potentially leaving you with some negative consequences from this interaction. Given the interest of Western companies to do business with China, your Chinese partner may easily substitute your company's business with that of a competitor. Thus, letting you down is very unlikely to involve any legal or reputational risks for the Chinese.

Chinese companies frequently overestimate the resources of Western companies. From their perspective Western companies are rich, big, have a wealth of technology and can pay much more. This may lead to inflated expectations in negotiations and to some 'Bazaar' bargaining tactics when money is discussed. It is expedient for a Western company to know the competition in China and elsewhere in Asia and to use a humble approach regarding its size and resources: "We are a scarcely resourced profit centre, we are fighting for survival in our markets..." But be aware that Chinese don't believe any story and they do their homework. If you start giving them false information don't complain that your business relationship is going downhill. Fast.

## **Economic Situation of Chinese Companies**

Around fifteen years ago China started joint ventures with Western companies in significant numbers. Since then, annual growth rates of GNP are 8 % and higher. China is now a rapidly growing economy. Although the biggest players are still state controlled, they all are very competitive and are reaching out to Western partners.



The pioneering Chinese companies are competing in Western markets and buying stakes in Western companies (e.g. Haier in the white goods industry). Due to a lack of reliable data it is hard to assess the activity of the private sector, estimates ranging between 30 and 60 % of the national economy.

The market moves very quickly with companies growing at rates of 40 – 100% annually. This creates a situation where markets are not transparent and business partners frequently change. New competitors emerge, old ones disappear. Chinese negotiators have to be very careful with whom they do business. Even with normally reliable partners they can experience ugly surprises as their partners might change their strategy or fail to cope with their fast growth. Even cooperative and good willing partners are sometimes caught in a bottle neck, due to their own suppliers, a limited supply of raw material in the market etc. It can be very difficult for a Chinese company to deliver the expected quality on time. Agreements are at times impossible to keep and everybody has to adapt and act very flexibly.

This explains to a certain degree disappointing situations that make it very hard to believe in good intentions of the Chinese partner, such as perceived breaches of agreements or over promising and under delivering.

Language difficulties, distance, logistical challenges can aggravate these complications. What helps? Well, the Chinese use patience, pragmatic adaptation and re-negotiating of agreements as mitigating levers.

This is not always easily compatible with our Western expectations of JIT deliveries and transparent and relatively stable customer supplier networks in a continent that has started industrialization over 150 years ago.

## **Conclusion**

Everything takes longer, Western companies just cannot expect to do business at their terms. They need to adapt to the complex differences of the way business is conducted in China: the economic situation of an emerging economy, the inferiority of a country that started industrialization only a few decades ago and finally the intricacies of the Asian collective mindset.

Allowing extra time, emphasising relationships before serious business success can be expected, being prepared for unusual steps in negotiations and paying attention to the fast changing market environment are the areas you want to observe to deal successfully with Chinese counterparts.

## Dynamics in Negotiations with Chinese

### Competition dynamics

- High levels of anxiety
- Organisations not stable, constantly changing
- Organisations highly competitive and ambitious

### Company dynamics

- Hierarchical integration to cope with uncertainty
- Top management not easily accessible
- Negotiators with ambitious tasks

### Negotiation dynamics

- Reality important but companies' needs and goals take precedence
- Current interest trumps adherence to trust and reliability
- 'Maybe it will be possible even if we don't believe it now'