



Thorough preparation will help companies decide the best way to approach the negotiation table.

# Negotiations, Chinese Style

*Strategic preparation and cultural awareness can sharpen the competitive edge for companies negotiating in China.*

Betsy Neidel

The global economic slowdown and debt crises in the Western hemisphere have spurred many corporations to look east for new business opportunities. For newcomers to the China market, as well as for those with established business relationships, China's expanding economy and ballooning consumer demand can exert an irresistible pull. Such conditions also create operational obstacles and competitive challenges for foreign players.

Today, effective strategies for leaping into China's operating environment or for taking existing ventures to the next level include stepping off the beaten path. To become

or remain competitive in China, corporations may have to enter second- or third-tier cities, build relationships with regional and niche players, or cultivate deals in China's interior provinces (see p.12). These strategic paths will take companies beyond the cosmopolitan comforts of Beijing and Shanghai to regions and cities where business dealings frequently exude more traditional Chinese characteristics and follow local rhythms.

When working outside first-tier cities, where officials and local companies tend to be more attuned to Western deal-making styles, corporations can benefit from honing

their Chinese-style negotiation skills, regardless of their level of experience in China. Negotiation is a constant for multinational corporations working in China, whether for acquiring new business, managing ongoing ventures, or coping with the rapidly changing business environment. The ability to negotiate well, Chinese-style, constitutes a strong competitive advantage.

### The Chinese view of negotiations

The Chinese word for negotiation—*tan pan*—combines the characters meaning “to discuss” and “to judge.” From a Chinese perspective, negotiation exists primarily as a mechanism for building trust so that two parties can work together for the benefit of both. Trust is built through dialogue that lets each party judge or evaluate the partner and the partner’s capabilities and assess each other’s relative status. The negotiation process also enables parties to reach an understanding on a specific issue, condition, or transaction, in a way that lets each side feel that “a good deal” was brokered. But the concept of negotiation hinges on creating a framework for long-term cooperation and problem-solving much more than on drafting a one-time agreement.

As such, negotiation in China is viewed as an ongoing, dynamic process that takes into account practical matters and context. Many Chinese prefer this approach over creating contract-based absolutes, which many Chinese perceive as the primary purpose of Western-style negotiations. Significant differences in negotiation style and culture can be accompanied by mutually unfavorable perceptions. Americans may see Chinese negotiators as inefficient, vague, and perhaps even dishonest, while Chinese perceive American negotiators as impersonal, impulsive, and overly focused on immediate gains.

When adapting to Chinese-style negotiations, task-based, time-conscious foreign partners must balance the need for quick settlement on specific issues and contract terms with the slower-paced and seemingly abstract building of interpersonal relationships. Competing effectively within a Chinese negotiation framework means understanding and accommodating the Chinese-style approach in order to craft a strategic plan that works on a local level.

### Take the time to prepare

The objective of strategic preparation for negotiations is to gain insight into the negotiating partner’s situation, intent, and capabilities, and to identify areas of focus for discussions. This takes time and effort, but thorough preparation will help a company decide the best way to

approach the table, increasing the likelihood of a successful negotiation and sustainable business arrangement. There are five main success factors to consider:

#### Know the context of the deal

Understanding the circumstances and environment in which business takes place is critical. Because the business context in China can differ from what Western executives are used to or expect, investing resources in broad-ranging due diligence is often money well spent.

Chinese partners generally expect foreign parties to know and work within the local context, making ready access to local information and insights an important precursor to sitting down at the negotiation table. Local staff, local contacts, and external advisors can provide pre-negotiation guidance by knowing what questions to ask prior to and during the negotiation. They may also interpret and evaluate the answers received, in the context of the local business environment. A foreign partner that is knowledgeable about the local situation and circumstances is more credible in the eyes of the Chinese partner and will build trust.

As an example of the importance of context, Western corporations often underestimate the degree to which government and business are linked in China. Lack of clarity on Chinese industrial policy, government regulations, and relevant government and business stakeholders at the national, provincial, and local levels can lead to the wrong strategic approach to discussions. If, for example, foreign corporate objectives conflict with local directives, efforts to find agreement with the Chinese partner may slow or stall without the foreign company understanding why. With adequate knowledge of the business context, companies can position themselves to achieve the best possible outcome.

#### Know your partner

Foreign companies must become familiar with prospective Chinese partners on the interpersonal and organizational levels, verifying credibility by looking at past track records and understanding the Chinese partners’ objectives for entering into a business relationship. Too often partners are chosen based on English-language capability alone or at a random meeting, rather than through a strategic screening process. Having a reputable local partner and being closely aligned on mutual goals are two prerequisites for successful negotiations and a lasting business partnership.

Lack of organizational transparency in China makes it critical for companies to spend time upfront understand-

#### Quick Glance

- When working outside first-tier cities, where Western deal-making styles are more familiar, foreign companies can benefit from honing their Chinese-style negotiation skills.
- To prepare for negotiations, the company should understand the circumstances of the deal, itself, and its potential partner; evaluate relative strengths and weaknesses of each side; and create a cohesive team.

ing their counterparts—especially in areas such as ownership structure, revenue sources, and funding of capital assets and operations. Companies should take time to confirm whether there is a basis for sustainable business before investing in discussions.

In one case, partners concluded an agreement for the purchase of a product that required export licenses. The

negotiations. The effectiveness of this approach requires knowing how to position the foreign company's pitch in the local Chinese business context.

As an example of what not to do, a foreign executive new to negotiation in China was discussing a business venture with his company's long-time China partners. When asked how a recent US court ruling had affected

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foreign partner entered into a purchase agreement only to discover later that the Chinese entity did not have—and was not authorized to obtain—the necessary export licenses. Deeper investigation into a partner's capabilities can reduce the risk of concluding a deal that must be completely re-negotiated and restructured later.

### Know yourself

Parallel to knowing one's partner is knowing oneself. On an individual level, self-awareness allows one to know how to best prepare for negotiating in China (see below). On a corporate level, clarity about high-level objectives, resource commitment, and managerial support for business in China drives internal pre-negotiation positioning. This, in turn, helps the company prepare opening statements about its background, commitment, track record, and value to Chinese partners—the “big picture” story that is standard in the opening phase of Chinese-style

corporate relations with a domestic regulatory agency, the foreign executive brushed it off as being unimportant to the business at hand. But by appearing either not to know about “big picture” issues that affected his own organization, or being unwilling to share knowledge with trusted partners, the new executive lost credibility. This resulted in less openness and trust from the Chinese side, and business volume was much lower than the Western company originally expected.

### Put relative strengths and weaknesses in context

After a company gets to know itself and its Chinese counterpart, it must evaluate the relative strengths and weaknesses of each side within the business context to prepare the negotiation strategy. The company also must understand its strengths and weaknesses compared to potential competitors—in terms of both price and non-monetary value.

For example, the Chinese partner is likely to rank potential partners against others and is often quite open about this during negotiations. It is not uncommon for a Chinese partner to say that it has received much more favorable pricing from the foreign company's direct competitor. To minimize the focus and discussion on price, be prepared to highlight product values and company comparison in areas like brand recognition, quality, service, and overall perception in China.

Companies that take the time to thoroughly analyze external and internal strengths and challenges in the local context are better equipped to participate in Chinese-style negotiations. Being unaware of how the company ranks in the eyes of a Chinese partner yields a distinct disadvantage during negotiations and possible loss of competitive positioning.

### Strive for operational readiness

Operational readiness means aligning internal organizational resources to work most effectively in Chinese-style negotiations. Most important is the creation of a highly

### Up Close and Personal

When negotiating in China, what types of qualities are most likely to resonate? Though it is by no means exhaustive, this list provides some perspective on the types of strengths and abilities that would benefit members of the foreign negotiating team. The foreign team should

- Be able to see the “big picture”;
- Convey clarity about the company's purpose and objectives in China;
- Listen;
- Be patient and persistent;
- Control emotions, expectations, and ego;
- Have a thorough knowledge of Chinese culture;
- Make a commitment to understand and observe protocol;
- Have a good memory and pay attention to detail; and
- Be respectful, trustworthy, and sincere.

—Betsy Neidel

disciplined, cohesive negotiation team that follows a unified communication plan. This differs from typical, unscripted Western-style negotiations, where each team member has an individual voice in the process and is encouraged to use it.

In the unified team approach there is generally one designated speaker. If other team members speak, it

Chinese partner is constrained from giving concessions by his environment or by management and what is possible to “push for” in the negotiations.

Finally, companies should not neglect the role of intermediary within the team. The Chinese proclivity for avoiding direct confrontation and personal embarrassment necessitates having someone who can speak informally to

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should be from the plan or script, showing corporate consensus. Even in side talks, team members should never openly disagree, question each other, or air unresolved internal issues in front of the Chinese partners. In Chinese-style negotiations, saying less is always better than saying too much.

A unified team also designates individual duties for each team member; these often include that of notetaker, translator, cultural interpreter, and intermediary. Functions may overlap but all are typical and expected in Chinese-style negotiations. For example, the notetaker serves an important role because the Chinese partner may refer back to statements or concessions made in the past. Without accurate documentation, it will be difficult to contest specific statements such as, “During his visit last March, your New York vice president assured us that you would provide....”

Similarly, foreign companies should use their own Chinese translator even if an official interpreter has been provided. Much can be lost in translation without access to the full breadth of discussions in both languages, and many insights can be gleaned from the other side’s internal discussions. Showing a willingness to use both languages is also viewed as a sign of goodwill.

Separate from verbal interpretation (though sometimes done by the same person), a cultural interpreter provides insight into nonverbal developments, cultural factors, and outside influences that the foreign party may not be aware of. The “big picture” and highly contextual nature of Chinese-style negotiations mean that Western negotiators are usually at a disadvantage if they lack this capability during operational readiness planning. For example, a cultural interpreter can tell a foreign negotiator whether the

the Chinese team: to ask for clarification, exchange ideas, influence attitudes, and otherwise work behind the scenes. Often the most pivotal information for advancing negotiations is conveyed over dinner or in “small talk” in the hallway. Building the role of trusted intermediary as part of the team provides a conduit for the all-important informal discussion and is part of Chinese-style operational readiness.

### Negotiations are never “over”

All situations involving two or more entities in China require some form of negotiation, ranging from informal, friendly discussions with a long-term partner to formal bilateral talks. Chinese-style negotiation is the process of building and tending relationships to produce benefits for both sides. It is a process that does not end unless the relationship is severed. This approach to negotiation is rooted in Chinese cultural, historical, and practical considerations and exists throughout modern China. It also differs greatly from the view that the negotiation ends when the contract is signed. From the Chinese perspective, the contract signing indicates the formal beginning of the partnership and with it, the commitment to the ongoing negotiation. In this context, successful foreign companies commit adequate time and resources to understanding and tending local China relationships for the long run.

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**Betsy Neidel** ([neidel@blueheron8.com](mailto:neidel@blueheron8.com)) is the founder and managing director of Blue Heron Holdings, LLC, a Texas-based advisory firm specializing in US-China business strategy and intercultural effectiveness.