

# Managing relationships and multicultural negotiations

[Business](#), [Management](#)



## Introduction

The reform and open door policies initiated by the Chinese Government through its Ten Year Programme for Social and Economic Development in 1978 has led the country to unprecedented economic growth (European Business Review, 1999). The key strategy that was adopted by the Chinese in order to accelerate these reforms was to attract foreign investment frequently in the form of joint ventures (International Journal of Social Economics, 1997). These joint ventures are often complex processes and should not be underestimated by foreign executives. Specific consideration must be given to the negotiation process at which time difficulties such as language, cultural differences and political barriers will develop.

The purpose of this report is to illustrate the key characteristics of the Chinese negotiation process and how their culture and customs may impact the early stages of establishing a joint venture.

## Chinese Economy

The Chinese economy has been transformed since it opened its doors to the outside world in 1978 as part of the Ten Year programme for Social and Economic Development (European Business Review, 1999). One element of this reform saw the creation of 14 Special Economic Zones including the Fujian district (see Fig. 1) in the East of the country. Significant investment has been made in the Special Zones over the last 20 years with a view to attracting new foreign investment.

China was officially admitted to the World Trade Organisation (W. T. O.) in November 2001 (BBC News World Edition 2001) and hopes that being a member of the W. T. O. will seal its ongoing commitment to the social and economic reforms of the last 20 years. China's ascension to the W. T. O. will create significant business opportunities for the other 140 member nations as well as for China itself. Following its entry to the W. T. O., China has significantly cut the import tariffs on numerous products and has pledged to lift the current restrictions in banking, insurance and telecommunications as well as improving its current legal system.

China is currently the 5th largest trading country in the world with annual exports equivalent to 23% of its GDP. China's abundant labour availability has made it internationally competitive in many low cost, labour intensive manufacturing activities and as a result manufactured products represent the largest share of China's trade.

### Infrastructure

When considering potential investment in China it is important to consider the infrastructure of the country. China has made a significant investment in the Special Economic Zones to encourage foreign investment (Int'l Journal of Physical Distribution and Logistics Management, 2002), however outwith these zones the infrastructure is generally very poor. The Eastern region benefits from excellent road, rail and a large number of seaports strategically located for importing and exporting goods. The coastal areas offer the foreign investor the best choice in terms of location as the Middle

and Western regions transportation links tend to be unreliable and over priced. Telecommunication services have been significantly improved and again it is the East of the country that has benefited from the ongoing investment ensuring good telephone and E-commerce links are available.

There are many international freight-forwarding companies including BAX Global, Danzas/AEI, Schenker and DHL who have successfully established distribution hubs and local offices in China in recent years.

### Chinese Banking System

A major area of concern with foreign executives looking to invest in China is that their banking system is not compatible with those found in Western countries. The Chinese banks lack modern management expertise and experience and this tends to impact the services that are currently offered. Unlike their Western counterparts China's banking system is heavily regulated and controlled by the central government (ManagerialFinance, 2002). They tend to play a minor role in financing private sector businesses. Several state owned banks control about 80% of the county's total banking business, a sharp contrast to the large number of banks that exist in the West.

Unlike Western banks, China has yet to fully accept the idea of credit and this can impact capital projects lasting longer than one year. Foreign investors should be aware that corruption does exist within the Chinese banking system and loans are often made on the basis of political connections. In order to be more effective when conducting business in

China it is advisable for foreign investors to establish banking connections in advance of any meetings taking place. The banks can provide invaluable information relating to currency restrictions, credit terms and even the current political and economic situation.

### Intellectual Property Theft

Copyright infringement is a major concern for any corporation that is considering entering into a Chinese joint venture. The European Union claimed that over 400 Chinese companies were involved in the practice of intellectual theft in the year 2000 (Bizasia, 2000). These infringements are costing European companies millions of euros every year in lost revenues. The Chinese government has signed all of the recognised world treaties relating to intellectual property including The World Trade Organisation Agreement on Trade-Related Aspects of Intellectual Property Rights (HarvardChina Review, 1998). Upholding the regulations relating to intellectual property rights in China is the responsibility of the law enforcement agencies and government administrations. The Chinese legal system is available to pursue issues of copyright although it can be a slow and often tedious process due to local patriotism, corruption and the lack of experienced legal officials.

### The Importance of Research

Any foreign corporation that wishes to successfully conduct business in China must research their particular market sector and preferred Chinese partner thoroughly in advance of any meetings taking place. There are

various means in which the research can be conducted, the most obvious being to contact the Chinese company directly and request background information. There are also Government publications, university research papers and the press, all of which can be explored to provide relevant research information. It is worth pointing out that the Chinese will pose similar questions to those asked by any potential foreign partner.

### The Business Negotiation Process - Cross-cultural negotiation

The challenges of cross-cultural negotiation are significantly harder than that of a mono-cultural environment. The mono-cultural process tends to be predictable and accurate, as those involved are not concerned with language barriers or cultural differences. The cross-cultural negotiation process is far more complex, as both parties are dealing with both language and cultural issues, which will impact the speed at which progress is made.

It is important when entering into a cross-cultural negotiation process that in addition to possessing excellent negotiating skills, a full appreciation of the cultural differences is understood.

### Guanxi (Relationship)

Chinese people believe that cultivating a good relationship or "Guanxi" with their potential business partner will minimise any risk. Regardless of previous business experience it is vital to gain a sound understanding of "Guanxi" (Marketing Intelligence & Planning, 1999), which literally means "relationship". "Guanxi" originates from the Confucian values of

trustworthiness, responsibility and group loyalty. Individuals who work by these values and acquire a "Guanxi" network are committed to each other. Relationships are sustained by means of exchanging favours and gifts in order that both parties achieve their primary objectives.

Individuals and companies who successfully adopt "Guanxi" can expect positive assistance in return for any support that they may offer. It is often understood that gaining the right "Guanxi" with the appropriate authorities will increase the chances of success for the foreign company within the Chinese business environment (European Business Review, 1999). The Chinese have a preference to deal with people that they know. This may not be that different from the Western world, however, any foreign corporation wishing to invest in China must make themselves known before the Chinese will consider conducting business.

### Status

The Chinese place a high degree of importance on status and respect of the hierarchy in both their social and business life. It is not uncommon for the Chinese to insist that only people with a similar or higher hierarchical level participate in the negotiation process (European Business Review, 1999). This status is given by the role that he or she has within their corporation. Before the meeting commences the Chinese will expect to receive a full list of the delegation in order of their position within the company. It is normal protocol when negotiating in China for the leader of the visiting company to sit directly in front of the Chinese negotiating team. Both leaders will have

their respective teams around them to allow for consultation during the negotiation process.

### Trust & Friendship

Mutual trust and respect on both a professional and personal level along with business credibility is valued very highly by the Chinese and is critical to the success of the negotiation process. Trust will form the basis of a successful negotiation and it is important not to ask too many questions on any issues that have been responded to. The Chinese may interpret as mistrust or questioning the trustworthiness of their negotiators. In order to ensure a smooth negotiation process it is important to share a common interest with the Chinese. They will view this as trust being shown to them. When negotiating with the Chinese it is important to project an appearance of trust. This can be achieved through honest discussion ensuring that there are no hidden agendas. A skilled Chinese negotiator is capable of sensing these positive characteristics. It is worth noting that although trust as expressed by the Chinese is important, no Western company should assume that the Chinese are above suspicion and caution should be exercised at all times.

The concept of friendship is related very closely to that of trust. It is important to gain the friendship of the Chinese, as this will be a key factor during the negotiation process. Achieving a level of friendship will in turn ensure a smooth business relationship. The Chinese do not like being taken



by surprise and it is important to try and establish some common ground as a foundation for developing trust and friendship.

European Corporations operating in China.

There are many European companies who have successfully established manufacturing plants and joint ventures in China. These include The Volkswagen

Group, Maersk Industry, SNF Floerger, Vivendi Water, Nokia and Ericsson.

Many of the problems experienced by these companies in the initial stages of establishing their Chinese facilities were due to the fact that they did not appreciate Chinese culture and what to expect during the negotiation processes. For example SNF Floerger highlighted the following difficulties as they established their business in China: They found it difficult adapting to the different locations and business environments; inconsistency with the interpretation of local business policies and guidelines; the market place was reluctant to adopt proven new technologies and business negotiations were subject to wide regional differences. This contrasts with the experiences of the shipping company Maersk who found the Chinese government both central and local to be very committed and business like and very serious about attracting foreign investment.

Conducting business in China varies from region to region and the negotiators had to adapt to the habits of the different locations. Chinese administration and local politics often impact the initial stages of any proposal and delays are inevitable. It is important to establish business

relationships with local political administrators who are capable of removing bureaucratic barriers. Companies that have successfully developed sites and joint ventures in China maintain that it is vital to be physically present during the negotiation stages. It is not possible to conduct business by telephone, e-mail or fax in China as this often leads to misinterpretation and confusion. Western corporations must be prepared to adapt to the different situations that they will encounter before, during and after the negotiating process has been completed. It is also advisable to enter into long-term agreements where possible that are clearly defined and understood by the Chinese.

### Summary

The ultimate objective of any negotiation process is to reach agreement. Negotiating under any circumstances is difficult but in a cross-cultural situation the negotiation is more complex and further complicated when you consider the differences in communication, negotiation style and culture. To be successful when negotiating in China foreign executives must prepare thoroughly in advance of the meetings taken place. They must ensure that they have a detailed knowledge of their own products and services and have obtained as much information about their Chinese counterparts as is possible. It is also important that they understand how the cultural differences may impact the negotiation process and be prepared to adapt their negotiating style to suit the varying situations that will arise. The Chinese will appreciate any effort that is made by the Western negotiation team to learn and understand their culture and methods of conducting business.