

# Joint venture negotiations in china management essay



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Electrowide is a manufacturer of automobile electronic products. Electrowide was looking for a business partner in Asian countries to establish local production in Asia. Electrowide's main objective that would put it in the best position to attain its goal was to secure a joint venture with China-based Company, Motosuzhou. Motosuzhou was running under the watch of Beijing municipal government and specialized in assembly line manufacturing of engine control subassemblies. Electrowide proposed a business contract in which they would be taking care of the design, finances and technology and Motosuzhou should provide manufacturing facilities and technical labour force for the plant. In this joint venture, Electrowide planned to hold 51 percent stake, with Motosuzhou taking 39 percent and the remaining percent can be taken by Beijing municipal government. But Electrowide- Motosuzhou dream project never came to reality.

1. What are the main characteristics of Chinese culture? How do they differ from the predominant characteristics of U. S culture? How do these differences relate to the negotiation process?

In Chinese business culture high collectivism and power distance plays a very important role. Almost all concepts related with Chinese business culture such as harmony, interpersonal connections, management abilities are inter linked with power distance and high collectivism. Another important factor related with Chinese culture is that they are not bothered about uncertainty and ambiguity. According to the Confucian theory Chinese people are relatively more focused on hard work, thrift and long term orientation (chinese culture connection, 1987). At the same time they are

also very much interested in protecting their public image and social order, hierarchy and mastery (schwartz, 2006)

Power distributions in Chinese business culture and US business culture are completely different and that makes difficulties during the negotiation process. In most private Chinese companies, the power is highly concentrated in one person or a handful of people and they are responsible for all decisions. But they are not involved in transaction negotiations and the negotiation process is always handled by some other people who are closely related to the company. Chinese people are centered on their relationships and they consider that a good business is always based on a good relationship. But western business men are more likely individualistic and they are more responsible for their own decisions. When compared to western people Chinese people are weak in making very immediate responses and decisions. According to them a decision should be made after some deep evaluations and discussions. So it's important to give them much time for their evaluation process and wait for their decisions. According to Chinese culture, once they have made a decision, they will never go back. So it's worth giving them time to make a strong and clear decision before starting negotiations on the basis of their silence in a business meeting. Apart from western culture, Chinese business men are indirect in dealing business counter parts and it's not easy to find out their emotions and thought by evaluating their current appearance in a meeting. For them a business meeting is a very formal and they act very polite and take things personally. Western business men take things easy and very casual in business meeting but handling business with Asian people is different and

need politeness and formality. Chinese have long memory for both favors and humiliations. But in western culture, business objectives comes first and they can easily forget all conflict those happened in business meetings to fulfill their objectives and business growth. In western business culture both men and women has same importance in all aspects but In Chinese business culture women plays significantly very less important role. Chinese people are very flexible and they do not prefer particular time for meeting in business. When compared to western business culture, Asian business culture has an entirely different and unique face and these differences can easily affect the negotiation process between them in business.

Proper and effective communication between partners has a very important role in starting a joint venture. Considering the barriers for western business men in starting a joint venture in Asian countries like china, language comes first priority. China doesn't have an English speaking academic system and even top business men are not good in speaking English (Driven, R. and Putz, M., 1993). Efficient interpreters are important to fill this emptiness between western and asian business world.

America and china are two different countries having different culture, language, style of living, way of expression, physical appearance and rituals. China has a very ancient cultural and traditional history (Chen, 1995). The way Chinese people express their emotions is completely different from US and lack of awareness in these cultural differences makes troubles during business negotiations between people from these countries. US people are more expressive and they prefer to show their views and ideas in meeting.

But Chinese considers that 'silence is golden', and they prefer to remain  
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quiet. They consider people who are talkative as immature. Americans and other Europeans, being quiet mean one who doesn't have his own identity and ideas or he is uncertain.

Chinese societies are culturally very different in nature (Chen, 1995) even the concept for network formation is diverse from other societies. In Chinese culture preference to trust is very less, they are more likely to trust people who are really close or related to them (Fukuyama, 1995). Most of the Chinese business operate through coordinated business networks (Redding, 1995). Chinese business is strongly influenced by the cultural, social, economic and historical factors (Luo, 1998).

2. What are the criteria that should be used in selecting a joint venture partner? Have those criteria been met in this situation? Why, or why not?

In international joint venture choosing the exact partner is important for the growth and success of alliances and new ventures (C. Lupton, 2009). The method of setting up a joint venture could be characterized in to four stages mainly selecting the suitable partner, negotiations, formulation of agreement and effectively operating and managing the international joint venture (Hong Ren, 2009). In all the four stages the role of the partner is very crucial since they can provide a lot of factors that contribute to the success of the joint venture. Selecting the right partner from different culture can become complicated. Prior taking decision on international joint ventures firms need to create a set of goals for evaluating the credibility of potential partners. A perfect Partner in a joint venture should have sufficient skills, assets and resources to carry out the business (Tony W. Tong, 2008). A joint venture

works only when both the firms have proper understanding, and should have an idea about the cultures of both the organizations and they need to work together giving their full potential in attaining success. Accomplishment of strategic objectives and longevity of the joint venture is also directly related to the selection of appropriate partner.

Before establishing a joint venture between two countries, political and government policies plays an important role. Compared to US government's trade policies Chinese government has strict and demanding trade rules and policies. But Motosuzhou was one of the 1000 companies within china that have got free reign to run their company apart from Chinese government's specific and strict restrictions. The perfect and complicated hierarchal structure of the Motosuzhou was one of the main problems faced by Electrowide because if there is any request for changes in the negotiation process, they must go through a government-audited process. Transparency is always a key factor that plays a significant role in successful joint ventures, but here US Company was not confident about the transparency of Chinese business system.

Financial dependency is another important factor that ought to be seriously considered before entering in to a joint venture. Firms need to have a clear cut idea about the financial resources of their partners if they are not able to generate the sufficient fund then there is no meaning in doing business together. Financial dependency of partners is strongly linked to the venture growth, failure or unwillingness to offer funds will lead to slow venture growth (Mehmet Demirbag, 2000). A company with fewer financial resources finds it very difficult to maintain a good relationship in an international joint  
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venture and thus cause operating problems which intensifies the overall difficulty.

Analyzing the economic issues is important to evaluate the case of Electrowide and Motosuzhou because there were many economic issues that affected the whole business deal. Chinese market is highly competitive and complex in nature and the initial investment is extremely high that makes it a difficult country to enter. Motosuzhou has demanded that they want all their profit in Chinese currency Yuan and that was not acceptable for Electrowide because of the exchange rates risks. In a joint venture control of financial operation between companies is always a major issue during the negotiation process. In this case Motosuzhou demanded to control all financial operations and this demand created disagreements between two companies. According to Electrowide the discussion about the financial operations was unfair because they are the providers of technology that is being put into the cars. Motosuzhou wanted all the training consulting and warranties provided for them by Electrowide and that makes this venture would be a financial burden for Electrowide. US Company was afraid of the extra expenses and responsibilities that can come with this joint venture. Electrowide wanted to ensure that they can support both technically and economically and wanted to share the financial expenses with Motosuzhou. These important economic issues were never discussed between two companies during the negotiation process and at the end of all discussions these economic issues remained untouched. Both companies afraid that discussing about these issues can kill the business and tried to avoid all economic issues.

In this case Motosuzhou expected to receive training for their employees from Electrowide but US company was not ready to spend money for training and in their point of view its Chinese companies responsibility to provide all training for their own employees. When this issue came in to attention US company officials were not ready for further discussion because of their headquarters demand to stick on the original outlines of the negotiation contract.

Trust is an essential factor which helps firms to develop long-lasting relationships (Reed, 2001). In a complex and uncertain business environment trust permits firms to reduce the operation costs. it actually determines the success of the joint venture. Many joint ventures fail due to the lack of trust between the firms. Therefore both the firms need to take an initiative in building a strong relationship to increase their trust. A successful joint venture works only when both the parties have respect and trust towards each other (Noordewier et al, 1990).

Difference in size and resources, individual egos, problems related with attitude all this bring upon a negative impact on the relationship of the firms (Harry G. Barkema, 1997). In order to create trust between two firms, partners should take time in analyzing the entire situation and be able to understand each other, especially the cultural background. Every civilization and culture has their own way to express their trust and it is important to gain and give trust to build a strong business contract. In American culture a contract is a technical document which can protect the business interactions and employees rights. For their business culture a contract has nothing to do with trust relationship. But in Chinese business culture a business contract is <https://assignbuster.com/joint-venture-negotiations-in-china-management-essay/>

a memento of a strong relationship and they value and spend time to build this strong relationship contract. Chinese business culture doesn't give any importance to a well written technical contract document. This cultural difference leads to deep misunderstandings between Chinese and American officials once US Company sought out a lawyer to write a contract. A lawyer to write a business relationship contract was a huge insult for Chinese and their trust on their partners was wounded at the initial stages itself. Effective and successful interaction between two companies is essential at the initial stages of their discussion and these interactions can provide a better way to precede next stages (Jiatao Li, 1999).

For a successful joint venture there should be much researches and studies about the new market and new partners should be conducted (Harry G. Barkema, 1997). In this case Electrowide didn't have conducted any studies about their Chinese partners and sent their expatriates with specific orders and negotiation outlines. These outlines didn't allow US officials to understand the situations during the discussion and failed them to respond effectively.

3. Evaluate the composition of Electrowide team and of Motosuzhou team. Did each of the companies make appropriate choices for this negotiation? Give reasons for your answer.

Electrowide team included Tom Sherman, Barb Morgan and Mark Porter.

Tom Sherman:

Tom is the leader of the Electrowide team. The company chose him due to his 32 years of experience with the company and vast knowledge in technical and industrial operations and manufacturing techniques. He is 55 year old with only one international experience was participating in a technology transfer symposium in Canada two years ago. He was leading the team but not familiar with Chinese culture and language. Tom failed in convincing the Chinese to accept the terms of JV.

Barb Morgan:

She was 42 year old and working Electrowide for three years. She can speak conversational Chinese & fluent in French. She stood as a supporter for tom but did not actively participate in the discussions because the Chinese didn't want her to involve in their discussions.

Mark Porter:

He is 31 years old with MBA degree & employed with the company for 6years. He is a business analyst. Mark was very much troubled with the behavior of the Chinese team

Motosuzhou team included Ai Hwa Chew, Deng Zang and Wang Yoo.

Ai Hwa Chew:

He is 55 year old and he is deputy director of supply chain & distribution. He is very poor in English and need a translator to understand. Ai Hwa Chew has a very good reputation inside the company and involved in decision making process.

Deng Zang:

He is 62 year old and he is working with Motosuzhou as the factory director for ten years. He holds a B. S degree in Business Administration from a local University and speaks very poor English.

Wang Yoo:

He is 65 years old & the minister of finance with a B. S in accounting from Beijing University. He can manage English and he is one of the cousins of Deng Zang. Wang Yoo served the country as a finance minister for 15 years.

By evaluating the failure of Electrowide- Motosuzhou business contract, it is important to evaluate the composition of both team and hoe they are involved in the negotiation process. American team was running with their headquarters time frames and deadlines. Companies always have some deadlines and they always construct their own time frames to achieve their goals. But Electrowide failed to conduct researches before coming up with their deadlines and they gave pressure to their officials by allocating eight weeks to achieve their targets. It was huge pressure and Electrowide team started their negotiation process at the early stages of their arrival. America and china has a very different business culture. Chinese were focused on building a relationship and familiarizing their guests. Chinese business culture is so personalized and they are not worried about any time frames. This cultural difference made disturbances in both sides. Chinese team was planning dinner parties and entertainments for their guests but Tom and colleagues were not in a mood to enjoy the hospitality of their hosts. This

attitude was a disrespectful act in the eyes of the Motosuzhou team members and affected the smoothness of the entire discussions.

Chinese society has a male dominant face and they are not ready to accept women on the front lines (Kenna, 1994). Barb is one of the efficient employees of Electrowide and she had more international experience than Tom and Mark. But if you are doing business in a male dominant culture you have to prepare some strategies that can help to achieve the business success. So Barb was a wrong choice and her presence in negotiation process didn't make any positive changes but negatively affected the whole contract. Therefore, in this special case a team composed of males would have helped to start a joint venture.

Insufficient communication and lack of preparation from both sides affected the smoothness of discussions and negotiation process. Electrowide members used the winter break to construct their business contract with the advice of lawyers and submitted in front of Motosuzhou officials. Chinese official didn't expect this movement from their guests and they felt it more like an insult. Trust is a narrow strand; once it's broken it is really hard to join together. The trust between Electrowide and Motosuzhou was broken and it was really hard for them to gain their dream project with a broken heart.

4. Should Barb Morgan has been on the negotiating team? Evaluate and give your reasons.

Each culture has its own significance and limitations. Chinese society has a male dominant socio culture and there are not many women who hold important positions in business. In western culture there is no discrimination

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between male and female in work place and women can hold high positions in both business and social hierarchy (Martin, 2006)

Barb was an extra ordinary woman who can speak both Chinese and French and had a strong international trade experiences. But in this case Chinese were not happy with Barb's involvement in negotiation process and they were not ready to accept a woman in the front line. Because of this Electrowide team couldn't use Barb's experience and expertise in international trades. After a few discussion sections, Barb only became good at sitting back and watching the interaction between Tom and those of Motosuzhou. Barb took this assignment to escape from her personal tragedies. Once Chinese started avoiding her, she got irritated and lost her confidence. Barb was going through her own personal and professional crisis and was helpless to produce a positive effect in the negotiation process.

#### 5. What should Tom Sherman do?

Tom Sherman was the leader of Electrowide team and he was a senior employee with 32 years of experience. Tom didn't have much support from his headquarters and was forced to make a business contract with in eight weeks. Tom was not familiar with Chinese business culture and was not aware of Chinese rituals. He should have done some researches and studies before coming to a totally strange country with a huge business proposal. Tom started negotiations with Chinese at the very first days of their arrival. He could have use some time to interact with Chinese officials personally and gain their trust before starting business negotiations. Chinese are

considered as very strong negotiators. Tom should have find out a local negotiator who can speak both Chinese and English.

Tom was hurry to draft a primary contract with in a short period of time and he started working on it during the Chinese winter holidays with the help of lawyers. He could submit a first draft in front of Chinese officials once they came back from their holidays. As a business man Tom was perfect in his works but he couldn't understand the business cultural differences between us and Chinese companies. Ultimately, Tom's over enthusiasm affected the whole contract and that destroyed their partners trust on them. During the negotiation process Tom couldn't effectively communicate with his parent company and couldn't win their support for his negotiations. Tom should have a different view about the whole project and negotiations should be conducted at different times by giving Chinese enough time to think about the project.