

Case: Americans negotiating a contract in China

Upon arrival at the headquarters of his company in Alabama from 2 months of negotiations in Shanghai, Scott Jones looked back at the tiresome negotiations and the many difficulties which had ultimately led him and his team to pull out of the process. Scott's company had hoped to establish a Joint Venture (JV) with a Chinese state-owned vehicle component company. They wanted to outsource some of the production to China to reduce costs. Before flying to China, Scott and his team prepared thoroughly. They inquired about the Chinese company, the production facilities, product quality and production costs. They knew exactly which information they needed in order to make a mutually satisfactory and fair proposal.

His Chinese counterpart, Sung Wang, and his team had also done their homework thoroughly. They had made inquiries about the US Company, and felt they had a good understanding of the company's overall business philosophy, corporate culture, the people running the company and the sophisticated production technology. They were keen to get to know the company and hoped to enter a long-term partnership built on mutual trust, enabling them to learn from the technological know-how of the Americans.

Scott was informed that the Chinese were tough negotiators but when looking back he didn't find them to be. He believed the Chinese played unfair games and tried to cheat wherever possible. He did feel impressed by the reception they received upon arrival in Shanghai. A delegation was waiting for them at the airport and a huge banner across the company's gate was put up to welcome them. They had meetings with many people from the Chinese company but also with local government officials. In the evenings they had one banquet after another.

The warm welcome and the many organized dinners did not stop Scott and his team becoming increasingly annoyed about the absence of a schedule and agenda. They were

completely ignorant as to what would happen the next day and this went on for days. Scott's boss called him every day to see where they were with the negotiations. Each time he had to tell him they hadn't started yet. Scott and his team began to push the Chinese for a schedule and to start the negotiations. The Chinese counterpart didn't quite understand how the Americans could be so ignorant as to not know that the Chinese counterpart didn't have the detailed schedule of the meetings. Their bosses decided this. By openly showing their annoyance and asking questions about the agenda, the Americans made the Chinese lose face.

Meanwhile, during this informal stage, in a casual way, the Chinese were asking business case-related information, which Scott and his team answered openly in order to maintain good ambiance. The Chinese, however, didn't respond to similar questions from Scott and his team. Instead they changed the conversation to various subjects such as the 'long-established' friendship between China and America. Scott felt the Chinese were deceiving him and didn't see how he could trust them. Sung, on the other hand, thought the Americans were rather naïve with being overly honest. In a business negotiation, you need to be strategic and not reveal everything. It puts you in a weak position.

Finally, after more than a week, the first real business meeting was scheduled with the CEO, Mr. Chen. Scott rehearsed his presentation carefully, as Chen was much higher in rank than him and probably 20 years older. To his surprise, for the whole meeting, the matter of the contract wasn't touched. Mr. Chen talked about the Chinese civilization and the promising Chinese business environment. Chen stressed the importance of reaching an agreement during the meeting on the general principles between both partners and refused to talk about the details of a contract. He talked about the importance of mutual understanding, goodwill, trust, long-term relationships, the importance for the Chinese side to learn from the technological knowledge of the American company. Not quite understanding what the general principles really meant, Scott went along with it and said yes to everything, but also mentioned the American interests. Then a communiqué was drafted and Scott noticed that his company's interests were only marginally mentioned in the document while the Chinese interests were spelled out in detail. He didn't comment in order to keep good relations and reckoned it was just a legally non-binding statement of intentions. Much later in the negotiations however Scott realized the importance of this document for the Chinese. They kept referring to it whenever he refused to make further concessions. Each time the Chinese counterpart reproached him that he didn't understand the spirit of those general principles and warned him not to endanger the mutual understanding. Scott just couldn't understand how the Chinese managed to make the link between the details of the contract they were trying to draft and the ineffective general principles.

The Chinese, in turn, didn't understand Scott's attitude. After all he had agreed upon the general principles, which represented the foundation of the relationship. They didn't see how they could trust someone who ignored general principles, which are based on trust. Generally, the Chinese felt quite offended about Scott and his team's shortsightedness and ignorance. They had made enormous efforts to welcome the Americans, given them the chance to talk to people with high rank and influence, which increases one's own status and opens doors. All the Americans could think of was their business presentation. In addition, the American CEO did not bother to fly over to discuss the general principles with the CEO of the Chinese company, which is the most important part of the negotiations. For the Chinese this was a sign of disrespect and insincerity, but in order not to disturb the atmosphere they hadn't mentioned it.

As the negotiations pursued, Scott and his team tried to go swiftly through all the details, looking at all the issues and facts in a logical order. Whenever Scott and his team thought they were making progress, the Chinese had to double check with their superiors and even government and party officials. Scott felt the Chinese were using delays to put them under pressure. The Chinese team felt offended by the fact that the Americans didn't seem to understand they often needed approval not only from superiors but also from government officials and this takes time. The Chinese could not discuss this openly as it makes them lose face. They had expected the American team to understand that negotiating teams in China don't have the same autonomy as the Americans. Moreover, the Chinese didn't see the use of discussing the details of a contract before they got to know the people they were going to do business with. For them the general principles were of greater importance, as the details of a contract would need to be adjusted to reality as it unfolded. In order to be able to adapt the details to reality, mutual understanding is needed, which didn't seem to develop.

At some point during the negotiations Scott was encouraged by the Chinese counterpart to take senior officials of the local planning approval commission out for a luxurious dinner. Building up good connections would shorten the application process for the planning permission for the building of a plant from several months to just a couple of weeks. Scott was shocked by this suggestion. It sounded like corruption to him. Aside from his personal feelings, it was his company's strict policy not to engage in this type of activity. The Chinese couldn't understand why Scott didn't follow their advice. Taking people to dinner is about building relationships and achieving a balance between the favours you receive and do. People in China feel morally obliged to return favours, which for them seems like a much smoother and flexible process than having to rely on contracts and courts. If you go to court, all parties involved lose face.

What frustrated Scott most, however, was that the Chinese counterpart never gave a definite answer. The Chinese often re-opened subjects which Scott thought had been settled, and a lot was 'subject to approval'. The Chinese never responded with a 'no'. They mentioned 'it would be difficult', or 'as long as...'. Scott and his team realized after a while that these expressions in fact meant no. The Chinese considered reality too complex to be divided into yes and no. They have a holistic approach and didn't see how one could analyse things easily, like the Americans proudly do. To analyse means to take apart. How can one take things apart that are connected? As a result of this perception, negotiations for the Chinese team were a circular, iterative process whereby one can revisit issues.

Despite all the difficulties and misunderstandings the negotiation teams did finally manage to set the day for the formal signature. Scott's CEO planned to fly in for this event. The Americans were very enthusiastic and especially eager to go home after this tiresome period. At the last minute, however, Sung approached the American team with a few 'little points', which his superiors wanted to reconsider. For Scott and his team these 'little points' were absolutely fundamental and unacceptable. Scott was enraged and called Sung a dishonest game player. Scott and his team decided the deal was off and the next day they flew home. Sung thought it was very unfortunate. It is common tactical behaviour to try to score some final points at the very end when your negotiation partner is tired and eager to return home. Sung didn't expect full agreement to his proposal. A minor concession would have demonstrated his negotiation skills to his superiors. Sung didn't see how they could possibly do business even in the future with people who behave in such a way.

- 1 What are the different approaches both parties take to business negotiations?
- 2 What are the mistakes both parties have committed in this cross-cultural negotiation process and what could they have done better?
- 3 Can you explain the different approaches and mistakes on the basis of etic and emic research into the American and Chinese national cultures?