

Since the economic reforms started in 1987 China became a vast, fast-changing country with exploding economic opportunities. China's GDP growth rate (USD) peaked at 14% in 2007 and stabilized around 7.5% from 2012 to 2014. (The World Bank Group, 2015) In the last two decades many Western corporations showed increasing interests in expanding their business to one of the largest economic systems as well as in building business partnerships with Chinese Companies.

A critical skill for building a business or partnership in China is negotiating. Some knowledge about Chinese cultural aspects and negotiation styles is a must when entering this market. The first part of this paper focuses on how to prepare for a negotiation. The second part concentrates on general negotiation tactics and what a negotiator should know before starting a negotiation process in China.



## SUCCESSFUL NEGOTIATIONS IN CHINA

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## **PREPARING FOR NEGOTIATIONS**

You can't negotiate effectively unless you understand your own interests and your own no-deal options. So far, so good – but there's much more to it than that. Since the other side will say yes for its reasons, not yours, an agreement requires understanding and addressing your counterpart's problem as a means of solving your own. (Sebenius, 2003)

A well-prepared negotiator will increase his or her chance of walking home with a good deal dramatically. Good preparation cannot only help to always keep an overview, it is also the basis for quick decisions, offers and counteroffers, helps to avoid stress and reduces the risk of being put under pressure.

The following aspects should be considered before even setting up a meeting.

### **TYPES OF NEGOTIATION**

Most negotiations can and should be seen as a process where both parties try to generate value together in order to find a good win-win solution. This would be a collaborative negotiation.

A competitive negotiation only makes sense when all parameters except for one are given. When the discussion is for example only about price every win for one party will automatically result in a loss for the other.

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## **BOTTOM LINE**

It is very common that people set their bottom line before entering any negotiations. No deal below this line will be accepted. All stakeholders should agree to that and everybody in the negotiation team should be informed. Setting a bottom line can protect the negotiator from accepting a bad deal.

## **BEST ALTERNATIVE TO A NEGOTIATED AGREEMENT**

Although setting a bottom line gives some kind of protection it also means focusing on the worst case scenario. A much better way for a negotiator to strengthen his or her position in a negotiating process is to know the *best alternative to a negotiated agreement*, in short BATNA. (Fisher & William, 2011)

The BATNA can be a counteroffer, another project or simply sticking to the status quo. Once identified, the BATNA will automatically become the new bottom line. One good thing about BATNAs is that they can improve over time when there are several options and therefore negotiations with several counterparts.

## **THE GOAL**

Research into human judgment has found that how we perceive a particular offer's value is highly influenced by any relevant number that enters the negotiation environment. Because they pull judgments toward themselves, these numerical values are known as anchors. (Galinsky, 2004)

The bottom line as well as the BATNA makes the negotiator focus on the lower end of possible outcomes. In order to be able to set the right anchor an additional point

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needs to be prepared. What is the ultimate goal, or in other words, what would be the result of a really successful negotiation?

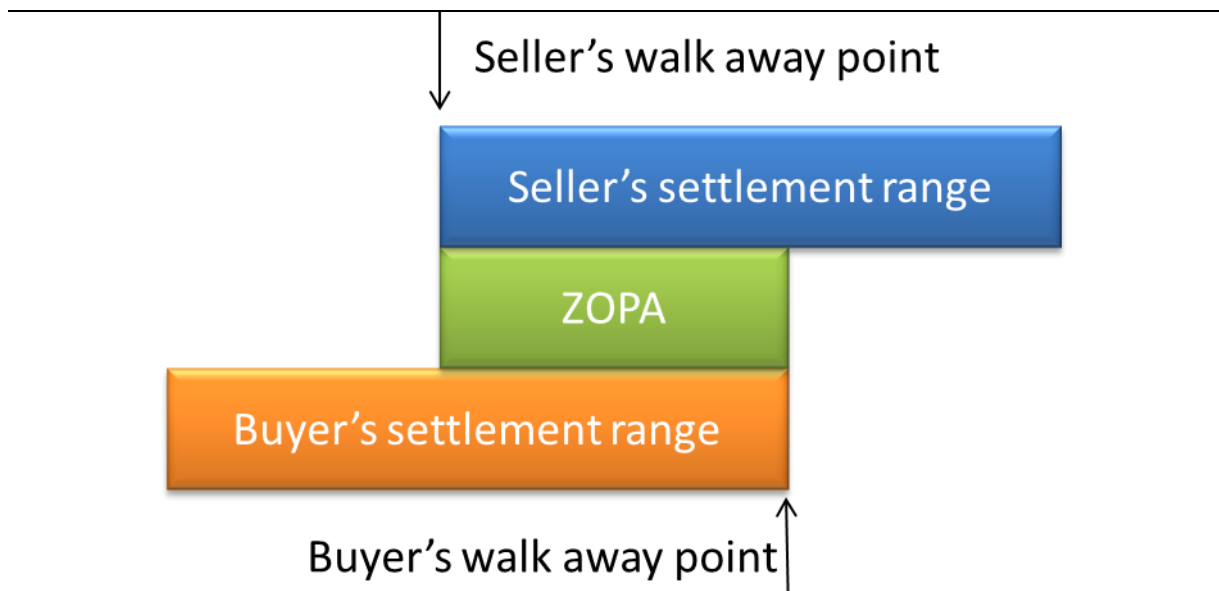
## **SCORECARD**

Now there is a bottom line acting as a safety net, the BATNA which strengthens the position and a clear defined goal to focus on.

When the deal is relatively simple it should be easy to compare different offers and scenarios on the fly. Nevertheless, with an increasing number of parameters this becomes quickly impossible. When several things like price, delivery time, guarantee period and training costs are up for discussion it makes sense to prepare a scorecard. The weighting should be aligned with all important stakeholders and include no-gos as well as a simple point system. This will be an important tool that saves time during the negotiation process, helps to judge an offer and quickly identify points where the negotiator can be flexible.

## **KNOWING THE OTHER SIDE**

Whenever possible a negotiator should collect the same information about his counterpart. Some of this information will be hard to get upfront. Therefore, it is important to continue to learn about the counterpart during the actual negotiation process all the time. At the same time it is important to keep in mind that the other party most likely does the same. Therefore, information should be given away wisely. With this information in hand it is easy to identify whether there is a *zone of possible agreement* (ZOPA) and where it starts and ends.



Some of this information can usually only be obtained directly from people who are close to the company or a person who acts as a counterpart in the negotiation. When dealing with large enterprises as a potential vendor it might pay off to know the start time of the new fiscal year. Most sellers will be more flexible on the terms of a contract in order to get a deal in at the end of the quarter and even more on year's end. Another example for a negotiation partner with personal goals could be a member of a purchasing department. In this role employees often have specific goals on costs but less focus on other terms of a contract.

## **DECISION-MAKING PROCESS**

One important key element to a successful negotiation process is to know all stakeholders on the other side. How and by whom are decisions made? Is there someone who needs to approve the deal or specific details and who might act as an expert judging technical details?

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# **CULTURAL ASPECTS TO CONSIDER WHEN NEGOTIATING IN CHINA**

In order to negotiate successfully in China it is essential to understand some cultural differences. Without this knowledge misunderstandings are already foreseen. When doing business in China or with Chinese people it will pay off to spend time on this topic. Some typical behaviours of Chinese negotiators are described in Appendix 2.

## **CHINESE BUSINESS ETIQUETTE**

Chinese executives sometimes look down on foreign managers who come to a meeting in China unprepared and do not show any interest in local customs. On the other hand Chinese are very open when they see that someone shows real interest in their culture. When doing business in China it makes sense to read some articles on this topic. Here are just some basic rules for a formal business meeting.

A business meeting begins with the introduction and it is polite to remain standing. It is common to shake hands briefly and nod slightly. Then business cards are exchanged. When doing so the business cards should be held with both hands. The card should be treated with respect and at no time be used for notes. It is also common to spend some time reading the cards and memorizing names and titles. During a meeting titles are used as a sign of respect. Having a Chinese translation on the back of the own business card will be appreciated.

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Before starting the actual meeting a pleasant atmosphere is created by doing some small talk. This atmosphere should be kept during the whole meeting. For some other Dos and Don'ts please refer to Appendix 1.

## **GIFTS**

In China it is very common to bring gifts even for business partners. Since Xi Jinping, the Communist Party Secretary introduced concrete measures against corruption and bribery in 2013 this topic has to be handled with more care. Nevertheless a small, inexpensive gift will be appreciated.

## **GUANXI**

Guanxi is the system of social networks and influential relationships that facilitate business and other dealings. (Oxford Dictionaries)

Literally Guanxi means *relationship*. It is a central idea in Chinese society based on the concept of exchanging favours. In China it can be essential to have a network in order to achieve something. Like in many other societies the dividing line between networking and corruption can be blurring.

## **MIANZI**

Mianzi, or Face is another social concept in China and it is closely related to Guanxi. Face is a metaphor for someone's reputation. Having face means having a good reputation, having no face means the opposite. Giving face means to support

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someone's reputation by commenting positively about the person. Losing face means loss of social status or to hurt someone's reputation. In China a person's social image is of paramount importance. Therefore, foreign managers should carefully pay attention to avoid making someone lose his or her face.

There is a Chinese proverb: Spilled water is hard to regain (Fù Shuǐ Nán Shōu). In essence, once you have caused a loss of face, it will be difficult to restore it. If you awkwardly insist on saying "sorry, that is not what I meant," it will often make matters worse. In most circumstances, the best solution is not to mention the incident ever again. The only way to restore the balance is to apologize in a formal manner and publicly, in front of those who witnessed the incident or to give one back face, for instance, by complimenting one in front of others – in a sense, by losing your own face or giving face to him or her. (Monfret, 2011)

## **HIGH VS. LOW CONTEXT COMMUNICATION**

In 1976 Edward Hall introduced the concept of high and low context communication styles. Hall stated that "a high-context communication or message is one in which most of the information is either in the physical context or internalised in the person, while very little is in the coded, explicit, or transmitted part of the message" (Hall, 1976) The primary purpose of a high context communication is to build and develop relationships. On the contrary, in a low context culture communication is direct and linear. The primary purpose is the exchange of information, opinions and facts.



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## NEGOTIATING IN CHINA

The biggest difference between Western and Chinese negotiators is probably the goal of the negotiation process itself. Typically Western negotiators work towards getting a contract signed that is well defined and suits their goals. Chinese negotiators typically start with building a relationship before they even discuss any details. In China this relationship building can take several days and sometimes Western negotiators with a tight schedule have to leave with the feeling that they have not achieved anything. In this phase it is important to build trust and then ensure to keep this trust during the negotiation – and afterwards.

At the same time it is important to find out whether the other side can be trusted. Politeness and friendliness should not be overrated in this context as it is simply part of the Chinese culture.

One efficient method to maximize results is to trade. This is where the scorecard comes in as it will help to identify low priority items in exchange for getting high priority interests. Finding new issues and discovering the counterpart's preferences on them create additional items for trading and can help to create more value. A deal should not be about single issues but a package.

As long as both negotiation partners meet at eye level the norm of reciprocity ensures that there is a give and take. A negotiator should make sure that this norm is not violated as the counterpart will feel cheated or treated unfairly. On the other hand he or she has to take care not to be asked for a much bigger concession than the one received.

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## QUESTIONS AND INFORMATION SEEKING

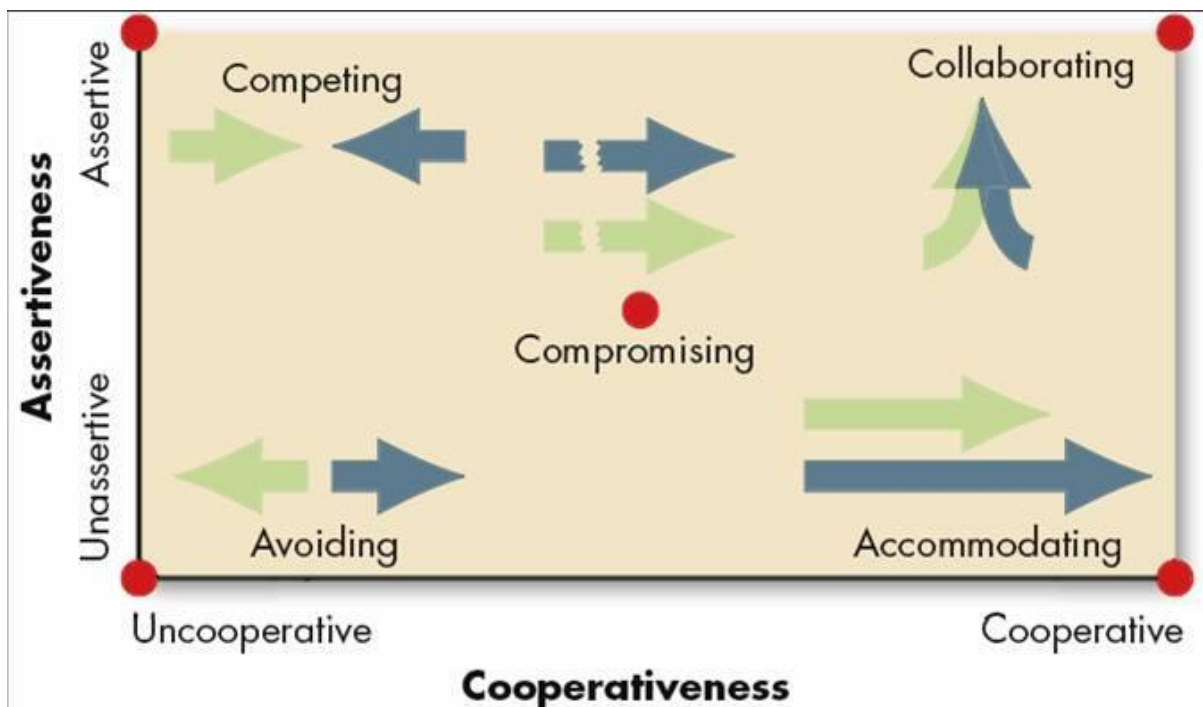
Asking questions is a wonderful way to express an interest in the other person, to gather information, to clarify a point and to encourage further thoughts. At the same time it is an elegant method to stay in control of the conversation. By asking questions someone can gain time to think about the situation while the other person is focused on answering the question. That way it is more likely that the questioner can “steer” the conversation.

Especially at the beginning of a meeting it is advisable to ask open questions in order to gain as much information as possible. The closer the negotiation is getting to the point where the concrete terms of a deal can be defined the more likely closed questions will be needed in order to nail down a certain issue.

A question can also include a compliment, which usually has a positive result on the answer. An example would be “Based on your comprehensive experience what would you suggest...”

## DIMENSIONS OF CONFLICT HANDLING INTENTIONS

Based on the two-dimensional taxonomy from Kenneth Thomas people can have five different intentions in a conflict or negotiation situation.



(Thomas, 1992)

Negotiators with a **competitive** style pursue their own goals over others'. They are focused on their short-term goals and often view the negotiation as a game.

The opposite is the **accommodating** style. Here negotiators nurture relationships, focus on others' problems and avoid problems.

People who are "**avoiding**" are also often referred to as passive aggressive. They do not agree but avoid the conflict. They appear tactful and diplomatic, use their information strategically and dodge confrontations.

**Compromising** is what most people understand as the purpose of a negotiation.

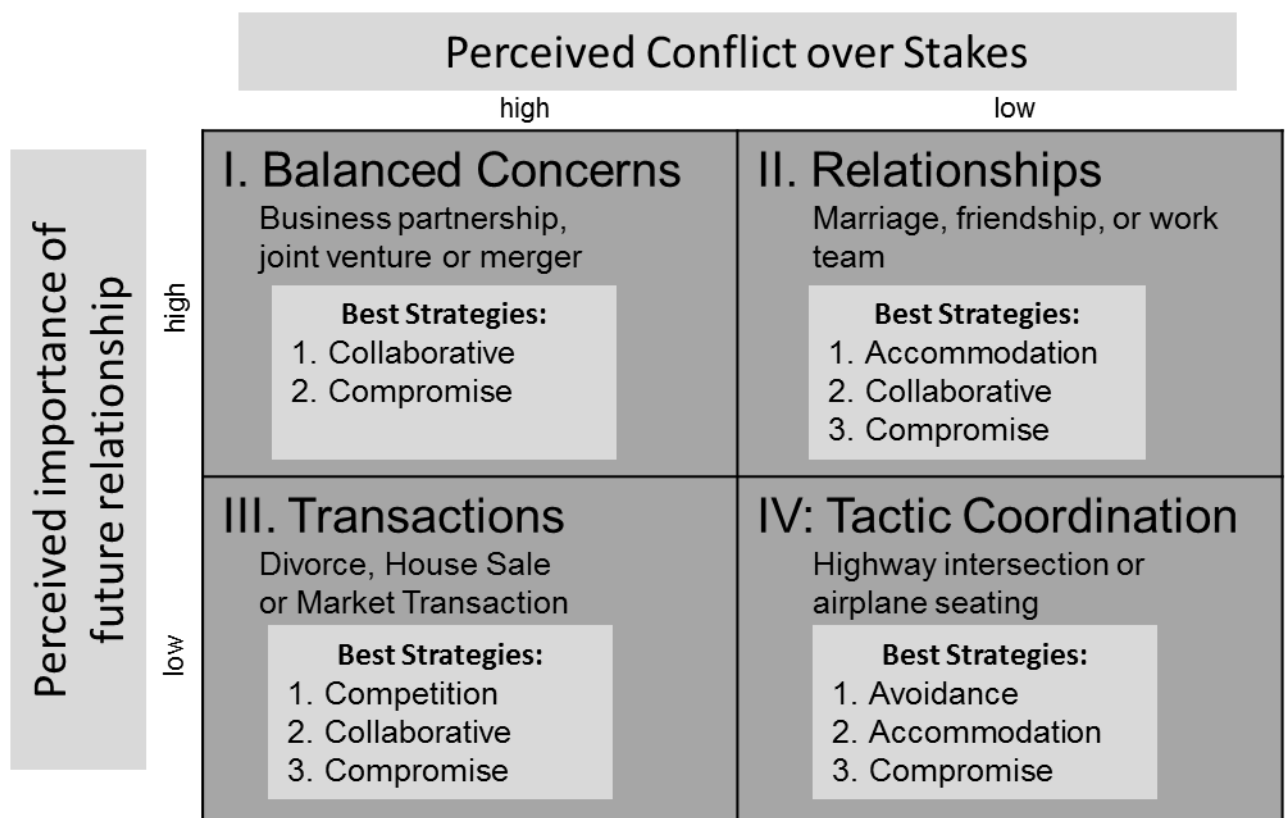
The expectation is that both sides declare their position and then meet somewhere half in-between. Negotiators who compromise tend to anchor their position and apply

fair standards to close the gap. This style will not lead to creative problem solving or value creation.

Negotiators with a **collaborative** profile are firm that their goals are met while they also acknowledge that the other party has needs, too. They dig into underlining issues, propose alternatives and solve problems. They are creative and not focused on closing the deal.

Based on someone's personal goals and the style of the counterpart certain styles will work better than others. Great negotiators can change their style according to the situation.

### The situational matrix: A strategy guide



(Nason, 2015)

The situational matrix gives an overview on which styles can be used efficiently in which situation.

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## SOME COMMON TRICKY NEGOTIATION TACTICS

Tricky tactics can be divided into three categories: deliberate deception, psychological warfare, and positional pressure tactics. (Fisher & William, 2011)

**Deliberate deception** is not the same thing as the lack of full disclosure. One way to avoid falling for this trick is to ask the same question several times and probe different sources. Although especially in China building trust is an important part of the negotiation process, it is wise to make the negotiation proceed independently of trust. When the other party is 100% sure about a fact it should not be an issue to include for example a penalty payment in the contract.

Another form is a wrong perception of authority. This is a very bad mistake to make. When missing to clarify whether the representative of the other party has the authority to make decisions, a negotiator might have a rude awakening at what he or she thinks is the end of the negotiation. Suddenly the result of all the hard work is less a final deal than a proposal for someone else in the other organisation who has the final say. In this situation a negotiator can almost be certain to be asked for further concessions.

A **psychological warfare** has the intention to put the negotiator under stress so that he or she will have a subconscious desire to come to an agreement quickly. Under pressure the negotiator will more likely agree to terms that are not in his or her favour. These tactics can include simple things like an uncomfortable environment or the deliberate causing of time pressure. Another form of psychological warfare is a personal attack. These attacks can be verbal or non-verbal and do not need to

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appear aggressive. Someone can attack another person's status simply by making them wait, not listening or repeatedly interrupt the meeting.

The downside of this tactic is that people do not communicate that much when they are not relaxed. A tactic that avoids this problem is the good-guy/bad-guy routine. This tactic is well known from old police movies. One person plays the *bad guy* and attacks the negotiator. The other person acts in a friendly way and might even pretend that he or she takes the negotiator's side. Usually the friendly person then conducts the negotiation as long as the negotiator is "cooperative". Otherwise the bad guy reappears as a form of punishment.

The first step to deal with a psychological warfare is to identify it as such. For a Chinese it is essential to stay always calm and never lose one's poise. Simply staying calm while enduring the situation can earn a Westerner respect. Another efficient way to deal with a psychological warfare is to address it. This way it becomes unlikely that your counterpart will use it again.

**Positional pressure tactics** are designed to create a situation where only one side can make confessions. A very simple way to do this is to refuse to start or continue a negotiation. Lawyers very often use this tactic. By saying "This is our final offer, take it or I'll see you at court" a lawyer does not necessarily mean that this is the end of the negotiation. Experience shows that there can be quite a number of final offers. But it clearly signals that there has to be a serious concession to make him or her return to the negotiation table.

Another positional pressure tactic is the lock-in tactic. This tactic is illustrated by Thomas Schelling's well-known example of two dynamite trucks barreling toward each other on a single-lane road. The question becomes which truck goes off the road to avoid an accident. As the trucks approach each other, one driver in full views

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of the other pulls off his steering wheel and throws it out the window. Seeing this, the other driver has a choice between an explosive crash or driving his truck off the road into a ditch. This is an example of an extreme commitment tactic designed to make it impossible to yield. Paradoxically, you strengthen your bargaining position by weakening your control over the situation. In labour-management and international negotiations this tactic is common. A union president makes a rousing speech to his constituency pledging that he will never accept less than a 15 percent salary increase. Since he stands to lose face and credibility if he does agree to anything less, he can more convincingly persuade management that the union must have 15 percent. But lock-in tactics are gambles. You may call the other side's bluff and force them to make a concession which they will then have to explain to their constituency. (Fisher & William, 2011)

## **MAKING THE MOST OF ALL AVAILABLE POTENTIAL POWER**

To maximise the results of a negotiation it is important to use each source of power. Negotiators tend to build their successes on their strongest asset, especially when it is very powerful. However, the best results will only be achieved when the negotiator plays all his cards well.

It is also more likely to be successful when the negotiator believes what he or she is saying. Not every tactic or method is suitable for everyone. Someone will achieve good results by adhering to the learnings of this paper. Nevertheless, for really great results everyone should combine a selection of these tools to his personal negotiation style.

# APPENDIX

## DOS AND DON'TS IN GLOBAL NEGOTIATION

	<b>Dos</b>	<b>Don'ts</b>
Team selection	<ul style="list-style-type: none"> <li>• Select members with relevant and complimentary skill sets.</li> <li>• Ideally, select someone who grew up or have prior exposure to the foreign culture, and those who can speak or understand the foreign language</li> </ul>	<ul style="list-style-type: none"> <li>• Do not select those who have low cultural sensitivity, traits incompatible with the culture of your opponent, or low flexibility in adapting to</li> </ul>
Adaptation to cultural differences	<ul style="list-style-type: none"> <li>• Understand well the culture of yourself and your opponent</li> <li>• Identify possible cultural conflicts and misunderstandings</li> <li>• Adjust to cultural differences and exploit them where appropriate</li> </ul>	<ul style="list-style-type: none"> <li>• Do not stereotype. Always prepare for exceptions</li> </ul>
Internal communication	<ul style="list-style-type: none"> <li>• Understand your team members well, including their education background, work experience, personal style, interests being represented, and priorities and preferences for the goals to be achieved in the negotiation</li> <li>• Seek internal consensus on key issues before the negotiation</li> <li>• Devise effective means of internal communication during negotiation, such as how to signal to each other when to stand firm, make concession or walk away</li> </ul>	<ul style="list-style-type: none"> <li>• Do not say something to your opponent that discredits the argument or proposals of your team members</li> <li>• Do not argue with your team members in front of your opponent</li> </ul>
Preparation	<ul style="list-style-type: none"> <li>• Gather intelligence on your opponent, such as implications of their composition, team members background and interest being represented, limits of decision-making authority of your opponents, and their priorities and preferences for the items to be negotiated</li> <li>• Conduct scenario analysis on your opponents possible proposals and your appropriate response</li> <li>• Devise your strategies of making offers and concessions</li> <li>• Determine under what conditions to walk away and formulate the best alternative to a negotiated agreement</li> </ul>	<ul style="list-style-type: none"> <li>• In cultures that put great emphasis on relationship, do not just rely on information communicated formally. Seek confirmation via informal channels, connections or intermediaries on the sincerity of your opponent in this business deal, mutual understanding of key issues to be negotiated, and your opponents preferences</li> </ul>
During Negotiation	<ul style="list-style-type: none"> <li>• Be patient</li> <li>• Pay attention to both verbal and non-verbal communications</li> </ul>	<ul style="list-style-type: none"> <li>• Do not show your discomfort or get mad with unfamiliar cultural behaviours</li> </ul>
Long-term training	<ul style="list-style-type: none"> <li>• Equip oneself with relevant language and cross-cultural negotiation skills</li> </ul>	

(Zhigang & Shang-Jin, 2010)



# INFLUENCE OF SOCIO-POLITICAL FACTORS ON NEGOTIATION

## BEHAVIOUR IN CHINA

Socio-Political Factors in China Negotiation	Behaviour of Chinese Negotiators
<ul style="list-style-type: none"> <li>• 1. Great emphasis on social harmony</li> </ul>	<ul style="list-style-type: none"> <li>• Often take into account of a Wide range of social issues such as local employment, workers' welfare, government policies and national interest</li> <li>• Show high preference to avoid overt confrontation in interpersonal interactions</li> </ul>
<ul style="list-style-type: none"> <li>• 2. Great emphasis on building and maintaining relationships</li> </ul>	<ul style="list-style-type: none"> <li>• Pursue a negotiation goal more towards relationship building than reaching a contractual agreement</li> <li>• Tend to Work towards a Win-Win agreement rather than a win-lose one</li> <li>• More emphasis on the long-term consequences of negotiation than short-term economic gain</li> <li>• Expect the opposite party to abide by an implicit rule of reciprocal obligation in offering concessions, returning favour and building long-term relationship.</li> <li>• Being very sensitive in maintaining each other's "Face", which is similar to dignity and prestige in Western societies. This is manifested by having very formal business etiquette, and adopting indirect means for expressing disagreement.</li> </ul>
<ul style="list-style-type: none"> <li>• 3. Great emphasis on social status, hierarchical ranking and paternalistic authority</li> </ul>	<ul style="list-style-type: none"> <li>• Expect negotiators in the opposite party to be of comparable seniority in its organization as those in the Chinese team. This is one of the ways to show sincerity in the business deal and respect to the opposite party.</li> <li>• Organise the negotiation team with one clear team leader, instead of having negotiators with similar authorities in the team</li> </ul>
<ul style="list-style-type: none"> <li>• 4. Great emphasis on collectivism</li> </ul>	<ul style="list-style-type: none"> <li>• Often have more negotiation team members, and they tend to come from more diverse backgrounds</li> <li>• The team may also represent the interest of other related parties not directly involved in the negotiation. These parties can be internal divisions or external institutions and companies, which may exert significant influence on the negotiation outcome. The existence of this kind of intricate connection networks is one of the ways to preserve a harmonious social structure</li> </ul>

(Zhigang & Shang-Jin, 2010)

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