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Fighting dragons with dragons: Approaches for negotiating with Chinese partners

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Abstract For many American firms engaging with Chinese business partners, patterns of negotiated promises made but not kept by their Chinese counterparts often prove rule rather than exception. While various issues play a role in this unfortunate condition, many contributing factors are not subject to control or correction by U.S. negotiators. But two singularly damaging factors can be controlled and corrected by U.S. managers. First is their tendency to negotiate from decidedly Western sociocultural perspectives. Second is that managers often negotiate in states of relative ignorance about certain key cultural values that heavily influence Chinese negotiating practices. Grounded in *Bing Fa*, this article describes approaches designed to enable managers to negotiate more effectively with Chinese partners. By turns, the approaches instruct U.S. managers regarding why and how they should (when negotiating with Chinese counterparts): embrace the unusual as normal; begin with hard ends in mind; anticipate/prepare for conflict; never resist resistances, [instead] always retreat gracefully; disclose with discretion; act like ladies and gentlemen; and never die with bullets in [their] guns. Adopt these tactics, and U.S. managers would lessen the impact of two factors that, when present, degrade their negotiating effectiveness.

1. Knowledge, fear, negotiations

> "America needs to understand China, but it need not fear China."
>
> — Henry Kissinger (2012)

Well, yes and no, Dr. Kissinger. While most would agree that America should better understand China, how many executives with skin in a global business game believe they have nothing to fear from Chinese partners? Not many, we suspect. Consider the following unsolicited opinion from a voice less influential than Dr. Kissinger's, but a veteran of dozens of business relationships with Chinese partners. As she left home at 4:30 a.m. in March 2011 to lead an early morning conference call, one author's spouse spontaneously uttered:

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> [I] don't know why I got up so early to go in to talk with them. All they're going to do is try to mislead me about everything [i.e., meeting quality specifications, honoring cost agreements, hitting shipping deadlines] anyway.

The call connected Dickies Manufacturing's sourcing team with executives from a prospective Chinese manufacturing partner. Despite her misgivings, the executive grudgingly made the call and eventually negotiated an agreement.

The U.S. executive enjoyed few other short-term, economically-viable alternatives in an environment characterized by skyrocketing cotton prices, uncertain consumer demand, and little unused Asian manufacturing capacity. The eventual Chinese partner offered attractive cost-to-quality production ratios for items featured within key product lines that drove much of Dickies' revenue. Naturally, the Chinese partner also knew these factors, understood their implications, and conducted negotiations accordingly, offering ostensibly reasonable commitments to lock down the contract. But by June the manufacturer had failed by substantial margins to honor any key promises it made. One might justifiably argue the Chinese negotiators simply exploited their comparative advantage in this negotiation. As the spouse implied, costs were higher than negotiated; shipments landed domestically 3 or more weeks late; and unacceptably high percentages of garments were flawed. Had the Chinese firm consciously misrepresented its capabilities?

This story is no anomaly; it is not apocryphal. Three negative outcomes—each attached to metrics crucial within most global supply chains—were forecast in advance of the agreement, and unfolded along lines predicted by the Dickies executive. While some problems resulted from asymmetrical powers enjoyed by the Chinese firm, could the U.S. manager have negotiated more effectively? We argue yes.

For many U.S. firms partnering with Chinese firms, a pattern of negotiated 'promises made, but not kept' is too often proving rule rather than exception. When dealing with Chinese firms, Western firms are regularly warned that contracts are not treated with the same legal sanctity as in developed economies (Galbraith & Dean, 2011). Contracts with foreign firms—that is, the written form of promises —are not legally binding for Chinese firms, some of which enter these deals with no intention of following through (Hupert, 2009). What about win-wins, acknowledging and respecting the inherent value available for each party in long-term relationships, and mutually pursuing and profiting from co-opetiton? Do such concepts apply in American-Chinese supply chain relationships? In theory, each should. In creativity-driven relationships, such concepts may be relevant. In a horseshoe-shaped supply chain, United States-based Apple ideates/creates/designs prototypes; Chinese manufacturing partners produce and ship finished goods globally; and Apple then manages branding and retail-level promotional efforts in the United States (Strutton, 2009). But within less creativity-driven domestic sectors—that is, ones in which most U.S. firms manage supply chain relationships with Chinese partners—such concepts often bear little semblance to workaday reality.

Senior U.S. supply chain managers (hereafter, 'managers') recognize many Chinese partners now enjoy opportunities to leverage greater market power than they have traditionally possessed. Increasingly, the Chinese understand foreigners need China (and its 1.4 billion consumers) more than China needs any individual foreign firm. This leverage enables many Chinese partners to negotiate from positions of strength (Hupert, 2011). But more significantly, managers must address the presence and impact of various Chinese cultural differences during negotiations. Such differences may trigger routine violations of what most managers believe are acceptable negotiating practices. These two conditions—one new, another old (but rarely considered)—are converging. Managers may need to change the approaches they use to negotiate with prospective/actual Chinese partners.

2. Purpose: Negotiating games Americans should play

Despite what many believe, "China is not communist in name only" (McGregor, 2011, p. 38). China is a communist nation whose capitalist-like economic policies are developed and executed through centralized processes. In practice this means when China wants to build roads, dams, or factories it does so sans concern that environmental, unionized, or special interest groups will coalesce to block the effort. China operates efficiently. Ten years and counting would not be required to rebuild destroyed World Trade Towers in China. China's overarching macroeconomic strategy is to leverage centrally efficient manufacturing-branding power and consumer market scale to build trade alliances with other nations (Chile, Ghana, etc.) and dominate the 21st century global economy (Odoi-Larbi, 2011). This centralized orientation filters down to how individual firms are subsidized by the Chinese government.

Whether China achieves this macro-goal is of no concern here. Instead, this article develops and