

Seven Rules for Closing a Deal in China

by Geoffrey James

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If you're outsourcing to Chinese manufacturers for the first time, you're bound to make a few gaffes when dealing with a business culture so different from your own. Here are some rules of the road:

1. Never criticize the government.

In the United States, taking verbal shots at the government is almost de rigueur in business conversation. Not so in China. While savvy Chinese are well aware that their government has problems, openly criticizing the government, or even being on the scene of criticism, is a good way to end up with innumerable troubles when it's time to make the obligatory kowtows. "The last thing you want is to be seen as a troublemaker," says Usha Haley, professor of International Business at the University of New Haven in Connecticut.

2. Understand the limitations.

There are still many industries in China where the organization and ownership structure reflects the old communist system. The government is reluctant to restructure and privatize these firms, possibly creating unemployment. When dealing with such bureaucrats, you may need to understand the constraints under which they are working (such as the need to maintain full employment) in order to understand how to work most closely with them, according to James Mulvenon, a former China expert for the Rand Corp.

3. Don't assume the contract is final.

In general, the Chinese place greater reliance upon personal connections and personal commitments than on what's written on a piece of paper. As such, terms that are discussed prior to the signing of a contract often are only distantly related to the actual terms under which the deal will move forward. "After you sign the contract, there will likely be multiple requests to change the terms in order to make the deal more advantageous to the Chinese suppliers," says Brad Finn, president of Marlboro Corporation, a wholesaler that works with Chinese manufacturers.

4. Try to cultivate the younger executives.

There is growing professionalism among younger Chinese executives, many of whom have earned MBA degrees from Chinese and American universities. Unlike their predecessors, such young executives are more likely to view business ethics and performance in a way that more closely reflects attitudes in the United States or Western Europe. They can help you understand what's going on in more traditional enclaves of their firm, according to Diana Matthias, a Shanghai-based senior consultant for Rouse & Co. International, a company that consults on international intellectual property rights.

5. Be sure you're speaking with the real decision-maker.

It's not at all unusual for a Chinese business owner to remain in the background and let his negotiator pose as the decision-maker. This gives the real decision-maker the flexibility to deny any concessions that he doesn't like and dictate better terms using your concessions (which you thought were mutual) as a baseline. "My advice is to simply walk away from the meeting if you find out they're playing this game," Finn says.

6. Beware of double-dipping.

Local representatives frequently position themselves to get paid both by the company that they represent (meaning you), and the company with which they're negotiating, according to Tim Wang, regional president of Novellus China, a subsidiary of semiconductor equipment-maker Novellus. But don't get too heated if you discover an apparent conflict of interest. In China, this is not considered a violation of professional ethics but a natural consequence of being in the advantageous position of being an intermediary.

7. Enjoy the inevitable banquet.

When you visit China, you'll likely end up attending one or more ceremonial banquets, where a wide variety of traditional dishes will be served. The host earns status by providing unusual or rare foods, which probably will not be at all like the Chinese food you're used to eating in the United States. You'll be expected to try every dish, lest you insult the host by refusing. The last time this writer was in China, the banquets included pig's ear, which tasted like rank bacon; turtlehead soup, without a visible head, thankfully; and an item listed on the menu as "boner-less chicken." Bon appetit!

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