

Chapter 12**China: The Case for Negotiations**

After a year of market research, the United States asset management company Investese has decided to enter the Chinese market, a lucrative market with great growth potential. Therefore, it has begun to investigate the possibility of forming a joint venture with the Chinese fund-management firm Chan Ching, one of the largest such firms in China. Investese President Dan Brighton hopes to convince Chan Ching President Wang Jiao Hai to offer the country's first "foreign" mutual funds. Paul Wendt and Carolyn Goodwin, from Investese, have been given the assignment of traveling to Shanghai to meet with the high-level management of Chan Ching. Their task is to lay the groundwork for a joint venture that would go into effect in about three months if things go smoothly. Paul and Carolyn are experienced and tough contract negotiators who have handled a variety of business agreements for Investese, but this is their first international negotiation. In preparation, they read a book on cross-border negotiations, and they both are confident that they will succeed in their overseas assignment.

On Sunday, Paul and Carolyn checked into their hotel, the Grand Hyatt Shanghai, in the heart of Shanghai's business and financial district, and spent the rest of the day resting up for their first negotiating session with Chan Ching executives on Monday. They met for dinner and discussed the talking points that they would present at 8 am the next morning. Paul and Carolyn were unsure about who would be representing Chan Ching, as the short memo they had received from President Wang had referred to "several company representatives" without giving specific names or titles. The president had also mentioned that the representatives spoke English fluently, so no translators would be required at the meetings.

"I am curious to see who the company sends to this meeting and whether Mr. Wang might attend," said Paul.

"Don't count on seeing Wang. That would not be likely, considering the hierarchy that exists here. Maybe a vice-president but nothing higher. And look who Investese sent to China—we're not even upper management yet," laughed Carolyn.

"Well, I'm just worried about not having the real decision makers at the table. Remember how we got fooled in the Leland affair? We spent six difficult weeks before we realized that not one of the negotiators from Leland had the power to close the deal."

"At least we did ok at the end. It just took more time than it should have. And we know Dan wants us back in New York one week from today. That puts a lot of pressure on us. Maybe we should start tomorrow by simply asking who has final say on the agreement. That should give us the information we need to proceed quickly."

Monday morning, Paul and Carolyn walked into the lobby at Chan Ching half an hour early. They had decided to take no chances about being late to the first meeting. The

receptionist escorted them to the conference room on the top floor and brought them tea and cookies. One hour later, no one from Chan Ching had yet appeared, and Paul went to the door to look for the receptionist. At that moment, four people came striding down the hall toward Paul and entered the room. “Good morning. We are so sorry to keep you waiting. I am Han Su, this is Wu Mai, Chen Qing and Zeng Li. Please excuse our lateness, but the president called us into a meeting at the last minute.”

“No problem,” answered Paul politely, as he introduced himself. He shook everyone’s hand and introduced the employees of Chan Ching to Carolyn, who stood up to shake hands with the negotiators. Then all six negotiators took their seats at the table.

“We are very pleased to be here in Shanghai,” began Carolyn, smiling at the four people sitting across from her. “Now let’s get started, shall we? First of all, we would like to know who will be making the final decision on our proposal.”

“I will act as the spokesman,” replied Han Su with a serious expression on his face. “My colleagues will not speak unless necessary. We find negotiations work better this way, less confusing, you know? Also, I am able to speak English.” Han Su quickly opened his Palm pilot and made some notes.

Paul and Carolyn looked at each other, perplexed by Han Su’s response. “We will both be speaking for Investese,” said Carolyn. “And we’ll try to be clear and to the point and not waste your time. Investese has sent us here for one week. We have a deadline to meet, and we’re going to need every minute to get this project going.”

“Of course, that’s true, so let us have some tea,” said Han Su. “Then we can hear your proposal. And how was your flight from New York? Is your hotel comfortable?”

“The flight was fine, and we already had tea, thanks,” Paul answered impatiently. “Perhaps we could simply begin with our proposal for a joint venture between Investese and Chan Ching. Our President Dan Brighton is hoping we can work together to offer mutual funds here in China. Your market is potentially huge and by 2010 has been projected to be \$300 billion if funded pension plans are introduced by the government. As your partner, Investese would provide the technology and creative input in return for control of marketing, compliance, and investments.” Paul looked directly at the four Chan Ching negotiators as he was speaking. He handed a two-page proposal to each of them.

“Carolyn, could you outline the details of our proposal?”

“Certainly, Paul. Our company as the minority partner would agree to 33% now, with the understanding that our stake would increase to 49% from 2005, in accordance with China’s financial regulations. However, we request the right to control investment decisions, as well as marketing strategy and compliance. Our experience in this field speaks for itself, and we have a proven track record in asset management. Our portfolio contains over 400 mutual funds.”

While Carolyn was providing this information to her counterparts from Chan Ching, she noticed that Han Su, Wu Mai, Chen Qing and Zeng Li were looking down at the Investese documents, out the windows, and at each other, but rarely looked at Carolyn or Paul. She found this seeming lack of attention slightly disconcerting, but she did her best to focus on the proposal.

When Carolyn had finished, Han Su made a few notes on his Palm pilot, scanned the two-page proposal, and began to speak slowly.

“Thank you again for coming to Shanghai and meeting with us. The meaning of Chan Ching, our company name, is *vision*, and we are known for having that characteristic. But we are a conservative company and do not act quickly. A joint venture is an interesting concept, and we will bring your proposal to our president, who is unusually busy this week and can’t meet with you until next week. Naturally he is the one who must consider your offer of a partnership although it will be a group decision. We will be in touch about our next meeting.” Han Su closed his Palm pilot and put it in his briefcase.

“What? When will that be?” asked Paul. “Ms. Goodwin and I have to return to New York on Saturday. I’m sure we sent you our travel schedule in advance. It is important that we reach at least a tentative agreement before we leave. Time is money, as we say in the States. Would it be possible to meet with President Wang? We have come quite a distance to present this proposal and to discuss the possibilities of our working together.”

“Thank you very much and please excuse us at this time. It is our hope that we can proceed with these discussions, but now our business responsibilities are heavy. We will send you an e-mail with suggestions for our next session.” With that statement, the Chan Ching employees stood up and shook hands with Paul and Carolyn before leaving the conference room. The entire negotiating session had lasted just fifteen minutes.

Paul and Carolyn were shocked. “We’d better e-mail Dan right away and give him a heads up on this no-progress situation. He might have to fly over himself if he wants to make this deal happen,” said Paul. “I just wonder why we struck out so totally. What a mess. Do you realize that we did not even set up another meeting? What went wrong?”

“Cross-cultural misunderstanding, perhaps,” said Carolyn. “I seem to remember something about the Chinese perception of time being much different from our own. The Chinese are not in a hurry, and they take plenty of time before making a business decision. It’s something to do with their cyclical view of time and their belief in considering the past and the future, not just the present. We should have planned a better strategy and not pushed them so hard. Maybe we appeared too aggressive.”

Paul thought about what Carolyn was saying. “Putting pressure on them probably backfired. Well, let’s see if we can still keep the negotiations going, at least while we’re here in town. And I could call President Wang and try to persuade him to see us. Then we can tell Dan we gave it our best shot.”

Discussion

1. What type of preparation is necessary for people who engage in cross-border negotiations?
2. How prepared were Paul and Carolyn for their negotiating session?
3. Why did Paul and Carolyn make no progress in their first negotiating session?
4. What approach should Paul and Carolyn have used with the Chan Ching negotiators?
5. What cross-cultural differences caused problems in the negotiation?
6. Should Carolyn and Paul call President Wang and ask for a meeting?
7. How can Carolyn and Paul improve their chances of negotiating a joint venture with Chan Ching?

Case Study Report

I. Statement of the problem

A. Definition

B. Analysis

II. Suggestions of possible solutions

A.

B.

C.

D.

III. Evaluation of possible solutions

A. Advantages

B. Disadvantages

IV. Selection of a solution

A. Choice

B. Justification