The Matrix of Complex Negotiations

Case study: negotiating with the Chinese at a time of crisis

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ABSTRACT

This paper seeks to outline the profile of the Chinese negotiators in light of the negotiations that took place during the month of October 2008 between a major Brazilian importer of manufactured goods, which we will call the “Brazilian company,” and six Chinese companies from the cities of Guangzhou, Pinghu and Hangzhou. We will provide succinct examples of stages in the negotiation process and seek to link them to the ten elements of the Matrix for Complex Negotiations, namely: Context, Interests, Options, Power, Cognition, Relationship, Concession, Conformity, Criteria and Timing; in the four steps involved in the process: Prepare, Create Value, Distribute Value and Follow Through.

Key Words: Negotiation, Culture, Economic Crisis, Competition, Interests, Tension, Positional Bargaining, Complex Negotiations.
INTRODUCTION:

To talk of the West in any generic way is very complicated, as we are well aware of the numerous differences among the various countries. Jeswald J. Salacuse (1998) indicated ten cultural aspects that influence negotiations, comparing the way in which these aspects affect the way that each country analyzed approaches given issues such as objectivity, attitude to the negotiating process, personal style, time sensitivity and emotionalism, to name but a few.

There are some very strong cultural ties between Europeans, Latinos and Chinese. However, when talking about China, we should distinguish at least four different cultures, which are directly related to the industrial and commercial realities inherent in capitalist China. There are the inhabitants of Hong Kong with a strong British influence, the Chinese from the Canton region where the factories in Hong Kong and Taiwan moved to initially, the Taiwan Chinese who are strongly influenced by the U.S., and the inhabitants of the Shanghai region. And we can identify different interpretations of the same theme within these four cultures.

It is possible to draw parallels between Eastern and European countries. In our view, Japanese culture is closer to Germanic culture in certain aspects, while Chinese culture is more akin to Italian culture. Wars of the past have influenced the relationships between the following Asiatic countries: China, Japan and Korea. We can also identify similarities between the intrinsic hostility within the various European cultures, linked with a history of past wars, and the same disruptive factors between the Chinese, Japanese and Koreans.

Regarding the ten cultural aspects listed in the article by Jeswald J. Salacuse (1998), we identified that Chinese culture, without wishing to stretch a generalization, attributes great importance to interpersonal relationships, with a tendency towards informality leading to indirect communication. Also, their time sensitivity is distinctly different from Brazilians, as they are emotive, prefer generic accords, elaborate agreements in an inductive way, seek consensus within the group, and are willing to take risks. With regards to the win/win/lose policy, we note that the professionals with an academic background tend to underscore the belief in a win/win policy, although, in practice, the prevailing trend is still win/lose.

We have a few reservations as far as the above considerations are concerned, although we readily admit that that the Chinese from Taiwan have a negotiating characteristic that is closer to the trends indicated in the study, with a distinctly American cultural flavor, whereas the Chinese from Hong Kong do indeed have some decidedly English characteristics.

The difficulties in communication make any comparison all the more difficult, as most exchanges of ideas between westerners and the Chinese are made using a third language, which in this case is English, thus suffering from a plethora of limitations in terms of available vocabulary.
THEORETICAL BENCHMARK

As a benchmark for this article, we used the model developed by EBAPE/FGV in its Program of Complex Negotiations – PNC, in cooperation with Harvard Law School in its Program of Negotiation – PON, and by ESSEC/IRENE-Paris. It defends the idea of mutual gain in the context of a negotiation at a time of crisis and maximizing the potential of resources to achieve mutual gain. It also recommends an agreement building process using strategies based on objective criteria in terms of Distributive value, and finding peaceful solutions to the more thorny questions in often extremely delicate and difficult situations.

The structure of the Matrix for Complex Negotiation is based on the approach of mutual gain and includes four stages in the negotiating process, ten elements, ten forms and ten evaluation indicators, as presented in Table 1.

The approach of mutual gain differs from the others, as it is a series of principles and strategies that makes it possible to: (i) maximize the chances that each of the parties will find and attain something in their interest; and (ii) create and maintain a good relationship between the negotiating parties. This approach guarantees that the process will be efficient and that there will be less attrition between the negotiating parties during the process, even if no agreement is reached. The central focus of this approach of mutual gain is on interests as opposed to positions.

Table 1: Matrix for Complex Negotiations

<table>
<thead>
<tr>
<th>Stages of Negotiation</th>
<th>Prepare</th>
<th>Create Value</th>
<th>Distribute Value</th>
<th>Follow Through</th>
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<td>Elements</td>
<td>Forms</td>
<td>Indicators of Assessment</td>
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<td>Context</td>
<td>Nego vs Nego (Direct)</td>
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<td>Interests</td>
<td>Agent</td>
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<td>Criteria</td>
<td>Facilitation</td>
<td>Risk</td>
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<td>Options</td>
<td>Mediation</td>
<td>Economic Optimization</td>
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<td>Relationship</td>
<td>Meta-mediation</td>
<td>Productivity</td>
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<td>Power</td>
<td>Multistakeholder Dialogue - MSD</td>
<td>Impacts and Sustainability</td>
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<td>Cognition / Communication</td>
<td>Parallel Informal Negotiation (PIN)</td>
<td>Emotion</td>
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<td>Timing</td>
<td>Arbitration</td>
<td>Ethics</td>
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<td>Concession</td>
<td>Judicial</td>
<td>Justice / Equity</td>
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<td>Legal Conformity</td>
<td>Use of Force / Police</td>
<td>Autopoiese System</td>
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There are four steps in the negotiation process used in the mutual gain approach: Prepare, Create Value, Distribute Value and Follow Through.
Prepare refers to what is done prior to the start of the negotiation process. Create Value refers to what is done to explore (understand) the interests of both parties, create options for agreement, and quell criticism in order to increase the number of possible outcomes. Distributive value is understood as what is done to reach an agreement based on the allocation of defined options in Create Value, and is the most assertive stage of the negotiation where the power games take place, together with communication and influence. Finally, the stage of follow through refers to what is effectively done to execute and monitor the agreements. (Spinola – 2007)

In terms of methodology, we mention the two basic criteria as defined by Vergara (Vergara – 2007) regarding the means and the ends. As far as the ends are concerned, this is a descriptive study exposing the characteristics of a given phenomenon, establishing connections between variables and defining their nature. In terms of the means, this is a case study restricted to a country, namely China, during a consumer goods trade fair – the Canton Fair – in the autumn of 2008.

CASE STUDY

To understand the posture adopted by the Brazilian company in this negotiation, it is essential to define the period in which the stages took place involving Create Value, Distributive value and execution. At the beginning of November 2008, one of the largest trade fairs for travel goods and accessories was held in Guangzhou, also known as the province of Canton. Both large and small-scale manufacturers of suitcases, handbags, bags, briefcases and wallets exhibited their products to buyers from all around the world. As everything in China is vast, a trade fair like this could be nothing else but gigantic. In this segment alone there were more than 2,000 exhibitors offering products from the highest quality to the more popular brands, often referred to as “Chinese goods”. A product called “Chinese” generally refers to low quality and low price goods. However, things are no longer as polarized, but we maintain this metaphor to remember that nothing is static, and the concepts can become mere references. The interesting thing is that the Chinese do not turn business away, or at least they rarely say that something cannot be done. Any product found at the fair can be manufactured at a cost that varies by up to 50%. But buyers should beware, as appearances are often deceptive. Just as they do not often let commercial opportunities escape them, the Chinese, do not like to lose money, and in line with this principle, buyers will generally get what they pay for in terms of quality.

Unlike the other numerous editions of the Canton Fair, which is held twice a year, it was clear that this one was different from all those staged before. In earlier times, global growth was galloping forward and the Chinese economy led this expansion with its export-based production platform. The stands were not selling products or looking for clients: it was the clients who were looking for suppliers and bought their merchandise. The actual effort made to sell was tentative, to say the least, and it was not uncommon to walk onto stands with unprepared sales staff with a disinterested glaze in their eyes. But the Canton Fair that year was held two months after a date already known as 9/8 (2008), the day when one of the largest financial institutions in the U.S. went bankrupt, taking the global market’s expectations and optimism down with it. It was the tale
of a disaster foretold, namely the problem of high-risk sub-prime loans, which had been announced almost a year before. It had taken shape and form, with panic sweeping through the Friedman-loving liberal capitalist world, and things would never be the same again. And it is in this CONTEXT that the round of negotiations in question took place (the PREPARE stage), and when value was created. It was in this scenario of economic retraction and amidst fears about the future of global economic expansion that the trade fair was held. It showed the Chinese that the SCENARIO of opulence and consequent certainty in terms of doing business was fading, and that plenty of effort would be needed to make any inroads in terms of closing deals.

The PREPARE stage began several months before, when the market still did not expect the economic decline to be as sharp and abrupt. Some suppliers were already traditional manufacturers of the importer’s brands and goods. The Brazilian importer prepared these suppliers for a major project, and the Chinese had fulfilled the expectations associated with the first stage. This initial stage involved an experimental order, although, due to the size of the project and the prospects of the importer, it was in itself already an order considered large by the manufacturers. As a result of the attention given to this initial order, the importer perceived that it represented a considerable volume of the Chinese manufacturers’ production capacity. One of the INTERESTS of the Chinese manufacturers was to retain the Brazilian importer as a client, in order to ensure continuity in their production lines. It is important to emphasize that manufactured products have a particular characteristic when compared to products that require little direct input in terms of manual labor, such as those produced by machines. The human element is directly linked with the quality of the product. It is not enough just to train the labor force for the required tasks, as it is more important to provide continuity in these activities, because the more a worker performs a stipulated task the better the result of the final product will be, and productivity will increase as a result. The more a professional seamstress/tailor in the clothing sector works, for example, the faster the tasks will be performed and with a better result. For a manufacturer, counting on the loyalty of a client that maintains continuity in its production line can represent profits in terms of scale that will be reflected in its production for other potential clients.

As a result, the Brazilian company sent more than 30 different product models and indicated that it intended to buy ten times more than the initial order. The manufacturers were clearly interested, and emphatically proved this by producing the samples in short order as well as declaring their ‘anxious’ interest in the project. This was perhaps the biggest mistake made by the manufacturers, as it indicated a weak point that would be taken advantage of in an opportunist manner by the Brazilian company.

On the other hand, the Brazilian company was only really interested in working with one supplier, or two at the most, in order to concentrate production, achieve economies of scale and have greater practical control of the process. This interest was not revealed to the suppliers, and the Brazilian company actually took a completely different tack, indicating it was working with five other companies and that it would be staging a tender among them. What the company did not say was that the supplier had already been chosen, and that this company would be the only one receiving the samples for production. The Brazilian company had an extremely weak best alternative to a negotiated agreement – BATNA (Fisher et al – 1998), as the time sensitivity factor made it impossible to produce these models with other manufacturers. This was due to the
company’s commitment to exhibit its autumn/winter collection at a much-publicized launch at a trade fair in January 2009, which represented a considerable investment in the brand. If the company failed to reach an agreement with this manufacturer, the only alternative to the aborted agreement would be to reduce the product line and cut a deal with another manufacturer, with the added risk of not receiving products of the proven quality shown by the original manufacturer.

Due to the changes in the global macroeconomic scenario, and based on the perception of the consequences this would have on the Chinese industrial park, the Brazilian company benefited even more from the weakened position of its suppliers, increasing the pressure to lower prices for goods without prejudicing quality. The trade fair showed that the times were bleak.

INITIATION OF NEGOTIATIONS

During the first few days of the trade fair, still incredulous and skeptical about the scale of the crisis, the exhibitors maintained a staunchly positive, Zen-like attitude. After all, the trade fair lasted 6 days and it is common for buyers to start their final negotiations only on the third day. However, as TIME (Duzert, 2007) went by, a dramatic scenario began to develop, as the passivity initially shown by exhibitors was gradually shaken, and they started to worry about the situation. The change in attitude as each day went by was perceptible, reaching a peak in terms of anxiety on the fifth day, and resignation to failure on the last day of the trade fair. Less than half of the visitors expected turned up at the trade fair. Exhibitors that had managed to do some business, or more accurately, begin negotiations, were happy to have got this far, considering that many had sold absolutely nothing. The SCENARIO on the last day was one of desolation. The exhibition hall looked like a battlefield with a multitude of fallen and wounded, a metaphor that is pertinent for those who believe the battle for market share is like warfare.

On the other hand, any attentive buyers visiting the trade fair could take advantage of this phase. It was clearly evident that POWER had shifted into the hands of the buyers. While supply was less than demand, and this is always the case in China, buyers had to be careful when approaching certain manufacturers, as they knew that they were disputing their production capacity with their competitors. Any disagreement could result in delays in deliveries or even cancellation of the order by the manufacturer. It is difficult for Brazilians to understand how or why a manufacturer could refuse to accept an order or a client, in a country where national industries suffer from competition with foreign products. But even in Brazil there are sectors, such as steel, for example, where the strength and power is on the supply side. Buyers have little in the way of bargaining power, and have to accept the supplier’s conditions in terms of price and delivery, and thank them for accepting the order. We found the same characteristics in some manufacturers of artifacts, accessories and lines of travel goods. Good Chinese manufacturers, with quality products and competitive prices, were hotly disputed by buyers from all around the world. The PERCEPTION (or cognition) of buyers regarding this opportunity was fundamental to the development of the next stages of negotiation. In the game of competition/cooperation (Brandenburger and Nalebuff - 1997) the latter only played a peripheral role. The Brazilian company in question adopted a different stance, using the TIME SENSITIVITY factor to its advantage. It immediately decided to extend the trip for ten days. All the Preparations had been
made with its traditional suppliers before the trade fair, with samples exchanged and order sizes indicated, with the intention of carrying out the stages of value/Distributive value and execution in a relatively short period of time. The initial plan was to finalize negotiations at the trade fair, although no deals were actually finalized in the end. It was made clear to suppliers that the client’s BATNA1 was the main option, or that due to the global economic crisis, no orders would be made, unless more attractive OPTIONS were offered (Fisher et al – 2005).

If, on the one hand, the suppliers indicated there was a possibility of lowering their prices, by changing some qualitative characteristics, on the other hand, the Brazilian importer did not accept any alteration in the product and pressed for a reduction in price through product exclusivity in production. What the supplier did not know is that this exclusivity had already been defined, and that it was not competing with other suppliers, unless it failed to reach any agreement at all. The real interests and options of the Brazilian company were hidden, which was a fundamental aspect in being successful and influencing the decision making by the Chinese suppliers regarding the concession of benefits to the buyer. To conceal its real interests, the importer blamed the global crisis and the consequent devaluation of the Brazilian currency, to indicate that its order might be reduced, which could be partially true, although the initial project had not been significantly altered. The Brazilian company was acting in a predatory manner, adopting a win/lose policy, benefiting from the desolate scenario at the trade fair. No options to cater to the interests of the other party were considered. All negotiations involve the distribution of results, but it is extremely common to pass up opportunities for Create Value. To do so it is necessary to share interests with the parties as well as hidden objectives. In addition, we have to understand the relative nature of these interests, exchanging questions that are less important to one and more important to the other (Bazerman – 2004). We noted here a clearly divisive posture by the Brazilian company competing in positional bargaining for more gains, resulting in a consequent loss to suppliers. (Fisher et al – 2005). The fear that one of the parties takes advantage of information in an opportunistic way is at the center of this attitude, representing what we call the Negotiator’s Dilemma (Mnookin, Robert et al - 2000)

The level of tension increased tremendously, and all the above-mentioned suppliers showed considerable concern about the additional time we spent in China, as the initial plan was to return to Brazil a few days after the trade fair. The Brazilian company even received an offer from one Chinese company to buy them air tickets, as long as they accepted the opportunity to visit their manufacturing plant, which would show their products in their best light and ensure the right conditions to close a satisfactory deal. Naturally, the Brazilian company accepted the invitation, and from that point on a round of exhaustive negotiations began that lasted for the next 12 days. New offers and options multiplied after every plant visited, in an extremely delicate game of positional bargaining and power play. The power was in the hands of the Brazilian company as never before, but up to what point could this be taken advantage of before resulting in a loss? The question now was not what could be gained from this situation, but how far they could go without stretching the supplier’s financial limits. As stated at the beginning of this study, the Chinese are not accustomed to missing business opportunities or losing money. If the Brazilian

1 BATNA – Best Alternative to a Negotiation Agreement
company abused its power, it could jeopardize the quality of the product, or the long-term future relationship.

It is important to emphasize that the Brazilian company, which had been supplied with Chinese products for more than a decade, was beset by a certain amount of rancor and anxiety, as it never felt that it had the power that buyers have in Brazil. This feeling cannot be ignored, as negotiators are individuals and can consequently be influenced by irrational emotions. *Asymmetry in the contribution of the parties to find a solution to a problem and their willingness to cooperate lead to egocentricity in the judgments made in terms of the fairness of the distribution of resources* (Bazerman – 1994 -p.186). We believe that it was this spirit of revenge that initially motivated the Brazilian company to adopt an almost perverse bargaining tactic, threatening to cancel its initial purchase plan and, worse still, demonstrating its inclination to pass on the few orders that it would make to a competitor. The Chinese had wielded a considerable amount of power over the heads of the Brazilians for more than ten years, imposing payment conditions, delivery terms and price structures, although this time around the roles were reversed. The development of the above-mentioned process is associated with the COGNITION/EMOTION element in the Matrix of Complex Negotiations (Duzert – 2007).

**CULTURAL RELATIONSHIPS**

We can consider the RELATIONSHIP factor in the Matrix of Complex Negotiations (Duzert – 2007) as a cultural aspect that, according to Chinese tradition, is a fundamental element in being successful in both professional life and the business world. John Graham and Mark Lam (2003) cite eight fundamental elements in the negotiation process with the Chinese. We show these eight elements as published in the article by Graham and Lam (2003). In an interview we conducted with a Chinese individual we have known for more than ten years, and with whom we have an excellent rapport, we could see the importance of the items mentioned in the article by the aforementioned authors. According to our interlocutor it is extremely complicated to explain the depth of each of these elements to a westerner. We believe that our more objective and rational vision, couched in Aristotelian logic, makes it more difficult for us to conduct an in-depth evaluation of the more complex oriental cultural aspects. However, the succinct explanations given to each element partially cover the full scope of each of the eight elements, according to the person interviewed. We link each of the elements below to a specific aspect of the Complex Matrix of Negotiations.

It is important to emphasize that each one of these elements is directly related to moral values that permeate the structure of Chinese society. The influence of Confucius in Chinese education for 2,000 years on this theme has been fundamental. According to Confucius, a society organized around a benevolent moral code will find prosperity, political stability and be free from attack (CONFUCIUS, The Analects – LPM, 2006). Confucius also said that personal relationships and family ties were fundamental pillars for peace and harmony. He defined five cardinal points between relationships: governor and governed; husband and wife; parents and children; older and younger siblings; friends and friends. The governed, wives, children and younger siblings follow the rules of benevolence, obedience, and loyalty to their counterparts, in a hierarchical process bringing peace and social harmony.
Another fundamental exponent in the construction of a moral code was Lao-Tsu, who was the inspiration for Taoism. He put forward the notions of Yin/Yang, namely the two opposing albeit complementary forces that govern the world. This stands in stark contrast with the western Manichean mentality, where good and evil are forces that repel each other, and that we have to effectively choose between. The Yin and Yang cannot be separated and the secret to life is to establish a balance between these two forces. The question for Lao-Tsu was not to discover the truth, but the way forward (Tao Te Ching - Lao-Tzu, Addiss, Lombardo, Watson - 1993).

These moral values are also found in the negotiation process with the Chinese. They are more concerned with the purpose than the end result, i.e. with the process rather than the goal, with common rather than individual gains. There is no single clear-cut and objective truth, as it can take various forms.

**GUANXI (personal connections):** The central idea is that individuals have more or less value in accordance with the network of interpersonal relationships they maintain. The Chinese place a great deal of importance on contacts, and any referral by a well-connected individual to another is worth more than years of formal contact. A network is only built through what the Chinese call *hui bao* or reciprocity. But it is not the same concept as American reciprocity, according to which a concession must be immediately reciprocated with another at the negotiating table. The relationships here are more akin to those developed among the Italian mafia gangs – with a few differences – according to which a favor granted today can be called in at any time in the future and where failing to heed this concept of reciprocity is considered immoral. For example: A Chinese gentleman once met one of us for a meeting at an hour that was inconvenient for him. On thanking this person for his attention, he was emphatic in stating that he agreed to meet us because he respected the person who had made the request without reservation. And our apologies for taking up his time were of no importance, as his obligation was to meet us out of respect for the person who had referred him to us. In this way, this concept corresponds to the elements of Relationship/Power-Reciprocity/Time in the Matrix of Complex Negotiations (Duzert, 2007).

**ZHONGJIANG REN (the intermediary):** Associated with the concept of guanxi, this element represents the importance and significance of the intermediary. To attain a specific objective it is important to use somebody’s personal connections. This person within the network assumes the role of the intermediary. It is impossible for a foreigner to understand the interplay, the facial expressions, the gestures and subtleties of the language. For this reason, knowing a well-connected person who can promote one’s interests is of fundamental importance. This concept is associated with the elements of Relationship/Cognition/Interests in the Matrix of Complex Negotiations (Duzert, 2007).

**SHEHUI DENGJI (social status):** Formality and respect for hierarchy are fundamental, despite the fact that the new generation is far more westernized and readily accepts the informal ways of the west. This concept is associated with the elements of Communication/Cognition/Power in the Matrix of Complex Negotiations (Duzert, 2007).

**RENJI HEXIE (interpersonal harmony):** There is a Chinese saying that states that “a man without a smile should not open a store”. The Chinese frequently mix interpersonal relationships and friendship. Credibility and harmony are also fundamental. And it is due to renji hexie that a
sincere handshake has far more value than a written contract. This concept is analogous to the Relationship element in the Matrix of Complex Negotiations (Duzert, 2007).

**ZHENGTI GUANNIAN (holistic thinking):** Unlike westerners, who have a more individualist perception focused on the component parts, the Chinese usually approach complex issues without breaking them down. This means that all aspects are dealt with at the same time, namely price, payment and delivery terms. This is one of the more complicated aspects for a westerner to come to grips with. Our Aristotelian logic stops us from shifting paradigms and analyzing the negotiation process in any other way than sequentially. We can attribute this concept to the Criteria element in the Matrix of Complex Negotiations (Duzert, 2007).

**JIEJIAN (thrift):** This is the cultural facet of saving money and bargaining for pennies. The Chinese will spend a long time, if and when necessary, sitting around a negotiating table to discuss details that will result in more profit. Saving money is a well known Chinese trait. It is said that they save four times more than the average American. This concept is associated with the Criteria element in the Matrix of Complex Negotiations (Duzert, 2007).

**MIANZI (“face” or social capital):** This is the element of saving face or preserving dignity. It is important not only to ensure that one maintain one’s dignity, but also not to assume or relinquish positions that may result in loss of face by accepting a price that is too low or beyond the realms of possibility. We can attribute this concept to the Compliance element in the Matrix of Complex Negotiations (Duzert, 2007).

**CHIKU NAILAO (endurance, relentlessness, or eating bitterness and enduring labor):** The Chinese are proud of not being lazy and work as hard as necessary. Children study 251 days per year, compared to 200 days in the western education system. This strength is constantly seen in the hours of meetings, the hard line on concessions and exhaustive repetition of the same arguments. To show patience is also a way of showing strength. The time sensitivity factor is within the context of chiku nailao. The Chinese use the time sensitivity factor to their advantage, aware that this represents a strength that westerners tend to resist. This is related to the question of the anxiety of humans associated with a failure to understand the concept of time. It is an “a priori” condition – as defined by Kant – or one that does not depend on experience to be understood, as it is pure intuition or incomprehension. What cannot be understood is the reason for anxiety among humans, which is why time is not generally thought about. If we think about time we get lost in thought and become aware of our insignificance and the brevity of our existence. Knowing how to deal with this element is a manifestation of strength. We can attribute this concept to the elements of Power/Concessions/Time In the Matrix of Complex Negotiations (Duzert, 2007).

**DISTRIBUTIVE VALUE:**

The Distributive value in this case was divisive by nature, and stemmed from an attitude of positional bargaining that gave rise to a win/lose relationship. This led to an extremely delicate relationship, the consequences of which will only be seen when the goods are received. As previously stated, Chinese companies are not in the business of losing money. Undoubtedly, any
pressure to reduce the price is directly reflected in the quality of the product. This attitude almost always leads to consequences that involve a breach of trust and thus the breakdown of the relationship. However, the pre-8/9 market situation was very different. Suppliers could give themselves the luxury of losing clients, as demand had been growing so consistently, and any demand not supplied by one manufacturer or service provider was soon snapped up by another. Things are very different in the new crisis scenario, with numerous manufacturing plants closing down in China or opting to take collective holidays, for the first time in China’s history.

EXECUTION and MONITORING:

The Distributive value process was concluded with the formalization of the order, though there was no official contract. In this aspect, it is important to emphasize that the importance of contracts in China is relative. The cultural aspects cited in this text are far more important than any formal written contract. Many western countries with contractualist cultures, such as the Anglo-Saxon or Germanic/North-European countries (Salacuse, 2005) find it extremely difficult to understand the value of a person giving their word in a verbally established agreement. But it is even harder to understand if this verbal agreement has really been accepted by the Chinese party. And it is here that GUANXI (personal connections), ZONGJIAN REN (the intermediary), MIANZI (“face” or social capital) and ZHENGTI GUANNIAN (holistic thinking) all come into play. We should give special emphasis to this last element, as it is only by having an all-encompassing vision that we can understand if the agreement made was really in the interests of the Chinese party involved. This is an extremely delicate moment, and it is at this point that most western companies discover their weakest point. A negotiation in China is not over with a handshake, or around a negotiating table, after rounds of talks. Even after all the aspects and specific points have been clearly defined in an objective and timely manner, the negotiation is always open, and can thus be altered at any given moment. ZONJIAG REN plays a fundamental role during the execution and monitoring stages, as it signals to the parties involved the aspects that may result in further conflicts during the execution stage.

It is common knowledge that any deal agreed will only effectively be considered approved after the payment, on behalf of the importer, of a down payment that varies between 20 to 30% of the order value.

Taking advantage of this flexible factor, the Brazilian company is using the global economic scenario to alter part of the agreement concerning the down payment. The depreciation of Brazil’s currency during the months of November and December 2008, which is public knowledge and easily verifiable by the Chinese, has been used as a means to delay the agreed down payment. It is not only the Chinese that break their agreements for cultural reasons, but also, based on the same principle, the Brazilian company feels that it has the right to do the same. This pressure increases even more when the time sensitivity factor comes into play, as the end of the Chinese year is in January 2009. If the Chinese company has not received any deposit indicating the effective confirmation of the order by the beginning of December, production for dispatch of the order before the end of the Chinese year is likely to be jeopardized, and the supplier’s insecurity in relation to the confirmation of the order increases the pressure on the importer even more. Therefore, the suppliers have put forward new options and alternatives
tailored to the importer’s needs (exchange rate depreciation) as well as their own (order guarantee). The Chinese offered to open a Letter of Credit, a document issued by a national bank that provided guarantees for the payment to the supplier, provided that the goods were dispatched at the times agreed. Another option is a deposit of less than the agreed 25%. This revealed that the part that was the most vulnerable in the relationship was that which led to the greatest number options or alternatives, in the search for a less positional distribution. Due to the power that the Brazilian company acquired in this scenario, it resulted in a win/lose relationship, to the detriment of the Chinese exporter.

CONCLUSION:

A negotiation is a holistic system that involves both transparent and hidden interests and plays on the emotions during the agreement-building and decision-making processes, all in a context of cultural aspects that influence all the parties involved. In this practical case study, which was conducted in October 2008, we sought to expose the correlations between some of the theories presented by different authors, with a backdrop provided by the model developed in the Program of Complex Negotiations (PNC), and to raise new issues and aspects to be explored in later work.

The cultural aspects cited in this text are emphasized far more than the signing of formal contracts. Many western countries with predominantly contractualist cultures, such as the Anglo Saxon or Germanic/North-European countries (Salacuse, 2005), find it difficult to understand the value attributed to a person’s word when given in a verbal agreement. The prevailing factors in the negotiations with the Chinese were GUANXI (personal connections), ZONGJIAN REN (the intermediary), MIANZI (“face” or social capital) and ZHENGTI GUANNIAN (holistic thinking), where especially this last element allows us to understand whether or not the agreement served the interests of the Chinese party.
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