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Winning with China Inc.
Reading the hearts and minds of Chinese multinationals operating in the Middle East

In the Middle East since 1926

Bilateral trade between China and the Middle East has been long established, but it is only in recent years that China has become the dominant commodities customer for the region's energy resources, and that cross-border trade and investments have blossomed. China's insatiable demand for oil is said to be the driving factor keeping crude oil prices in triple-digit US dollar figures for years, which in turn has added an estimate US$1 trillion to the GDP of the GCC countries over a 10-year period (2003-2013)[1]. This surge in wealth has led to growth opportunities across a broad range of sectors such as real estate, transportation, telecommunication and financial services, for both Chinese companies and their Middle Eastern counterparts.

The aftermath of global financial crisis, uncertainties in some parts of the region, and in particular, the recent unexpected sharp dip in oil price have added a new dimension to the increasingly interconnected bilateral relationship between two of the most important emerging markets. Governments across the Middle East now have a stronger incentive than ever before, to leverage new sources of investments in achieving social development and economic diversification of their respective countries. Whereas China, armed with US$3.3 trillion in reserves and sluggish growth at home, is eager to turn its reserves into productive assets overseas.

The growing number of Chinese multinationals setting up shop across the Middle East is a key aspect of this story. The Chinese bring capital, human resources as well as a different set of ways of doing business. So, are we ready to do business with the Chinese multinationals? Do we know what motivates them, how to engage them, when to negotiate with them and why they choose one partner over another?

Of course, business is business at end of the day; hence the same commercial common sense applies regardless of where the companies come from. However, when it comes to dealing with this culturally and linguistically distinct group of companies, most of whom are relatively new in working within pre-defined international business protocols, it would certainly help to understand the whys and hows of their decision-making in order to form mutually beneficial relationships that are built for success and built to last.

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Deal lifecycle with a typical Chinese company

To begin with, it is important to understand the typical onboarding and buying process with Chinese companies, which differs quite significantly with that of their Western counterparts.

The onboarding and buying process of Chinese companies usually takes longer, with a more complicated scoping and negotiating process, than what would usually happen with a Western company.

Generally speaking, a Western company purchases services in a fairly linear and straight-forward manner. Usually it starts with certain needs being identified, then potential work processes involved being scoped and agreed upon internally, followed by this agreement on the scope of the work being socialized with potential providers (sometimes this step is skipped), before being crystalized into a general Request for Proposal (RFP) or Request for Information (RFI). After providers provide their responses, the best or most suitable option is selected to perform the work, with minor alterations based on the negotiation process.

For Chinese companies, these steps along the buying process are less clearly defined and less linear. The companies' needs would usually still be developing when initial contact occurred. In fact it might not be definite whether external service providers are desired, or service itself is required at all. Hence in order to secure a service agreement, potential service providers not only have to prove that they have what the clients need, but also that the clients appreciate the benefit they gain from being serviced in the first place. Therefore with Chinese companies, the RFP or the whole buying process is usually less formal, at least in essence.

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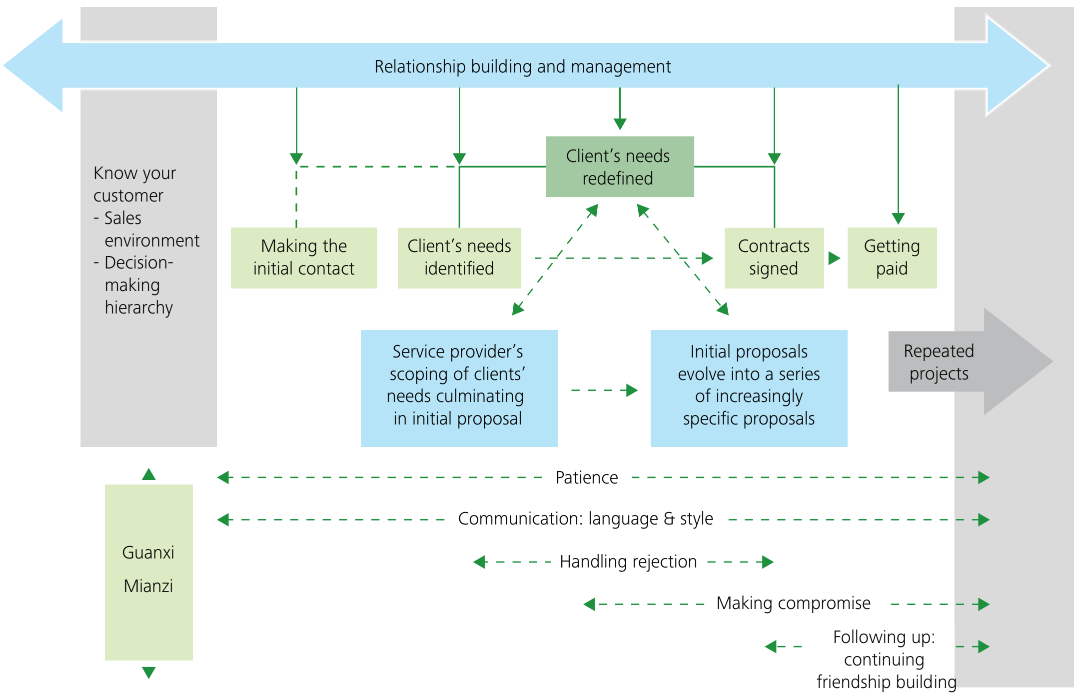

There is more room to maneuver when it comes to contract negotiation; oftentimes those who helped define the work needed will be asked themselves to perform the scope of the work they helped identify. Credit won with particular Chinese companies during this lengthy process will also likely go a long way down the road, leading to faster, easier, and repeated project wins with the same company.

In this process, negotiation could potentially take more turns than expected given the double efforts involved to:

- convince the Chinese companies of their need for services;
- define the need in a mutually agreeable manner, that eventually gets crystallized in a written, structured and enforceable contract.

Given the competition involved, it could get infinitely more complex with lesser-known competitors trying not only to outperform but to impose their own version of the agenda on the process.

These convolutions might have contributed to the notoriously lengthy sales process that is popularly associated with Chinese companies. While it might be the case, potential service providers are in fact left with more leverage in their reserve to influence and implement what they believe to be the best solution for their clients and for themselves. In other words, working with Chinese companies is likely to be more of a true partnership that is based on a co-developed vision for enterprise growth and business development. There is more room to maneuver when it comes to contract negotiation; oftentimes those who helped define the work needed will be asked themselves to perform the scope of the work they helped identify. Credit won with particular Chinese companies during this lengthy process will also likely go a long way down the road, leading to faster, easier, and repeated project wins with the same company.

The importance of trust in a relationship

Hence it is not difficult to understand the significance of relationship building and the management process in doing business with Chinese companies. This further reinforces the premium attached to trust and loyalty with this particular group of potential customers, as well as the ability to earn it with the right partners throughout this process.

Before going into key behavioral elements of trust building, it is essential to understand two important and distinct characteristics of Chinese companies, Guanxi and Mianzi.

Appreciating Guanxi and Mianzi

Contrary to public perception, Guanxi (a.k.a. 'connection') is not your typical nepotism fraught with bribery and corrupt practices of trading authority with perks. In a business setting, it refers more to a deep and sustainable relationship that qualifies one as part of the inner circle, i.e. someone with the status of a confidant. Chinese companies value long-term relationships;

contrary to their Western counterparts who tend to build relationships via consistent delivery, for the Chinese businesses, an amicable relationship or anticipated friendship is the first step towards the likelihood of working together. Simply put: Chinese companies prefer to do business with those they know, those they sense a personal connection with, those they feel comfortable entrusting their money with, those they could count on beyond the immediate transaction.

As a result of this cultural preference and expectation, it is essential for anyone with an interest in doing business with Chinese companies, to adopt a long-term approach. Chinese companies are more likely to engage a service provider–repeatedly–if they feel there is Guanxi with the provider, which signifies a mutually acknowledged relationship built upon reliability and trust.

Mianzi (a.k.a. face) could be loosely understood as dignity and pride, which feature significantly in Chinese culture, particularly that pertaining to a public setting such as a business/social environment.

Mianzi is of utmost importance to any Chinese executive with a sense of self-value who wishes to command respect in a socio-political-economic setting. It explains motivation behind countless seemingly absurd and counter-intuitive decisions made by rather rational dignitaries of the Chinese business community. Hence keeping face, saving face and giving face are taken gratefully by Chinese executives, whereas causing the loss of face, even unintentionally, could lead to disastrous consequences. One is often advised to exercise cultural sensitivity and precaution in situations where Chinese executives' Mianzi might be at stake. However it might be difficult for one without prior experience with Chinese culture to fully comprehend when such situations arise; in this case, a rule of thumb is always be mindful of potential acts that would likely be associated with causing public humiliation on the part of your Chinese counterpart, such as perceived abruptness when turning down an invitation to socialize, challenging a senior executive's idea in front of subordinates, failing to show appreciation when a senior member of the Chinese group intervenes to address a contentious issue (sometimes a problem of their own making, which makes it difficult to be grateful but it is almost obligatory when a senior executive steps in).

Guanxi and Mianzi are two of the most important terms to appreciate when it comes to working with Chinese companies. They operate as a backdrop against which business interactions operate and flourish.

Elements of trust-building

We will start with trust and the art of trust-building with Chinese clients, throughout the whole deal lifecycle:
- Patience
- Communication: language & style
- Handling rejection
- Making compromise
- Following up: continuing friendship building

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Patience

In light of the seemingly lengthy deal lifecycle with Chinese companies, patience is the one single indispensable virtue underpinning the whole onboarding process, which oftentimes is more complex than the linear Western approach. Chinese companies will need to be convinced that the service provider (Chinese, JV or foreign) understand their business needs and can advise them on issues beyond their own capabilities.

It is rare for a Chinese executive to jump into serious business discussions when meeting someone for the first time. Business is a sensitive topic for them, so that they prefer to confess to people with whom they feel more than a basic level of comfort. Therefore it is not uncommon that a Chinese executive spends over 95 percent of the time talking about current affairs, their personal collections, or even industry gossip, and only the last few minutes touching upon business issues they face. This is particularly the case with the more senior management/c-suite executives.

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In this case, it is important not to push the senior client into business negotiations; instead, let the natural flow dictate the pace of interaction. Losing patience, even in a private setting, would be interpreted as an insult and reflect very negatively on oneself.

Again, it is helpful to revisit the long-term approach– less transactional selling but more investments in understanding the company and fostering a genuine relationship. Chinese companies need to feel that one cares about their business before entrusting mega-transformational projects to that person/company. Getting there requires patience, but it is well worth working towards.

Communication

Successful communication starts with listening. For only when one listens intently can one respond purposefully, engage meaningfully, hence communicate effectively to reach a mutually agreeable result. This applies universally but particularly rings true for Chinese companies. As highlighted earlier, they tend to have a stronger penchant to co-develop and re-define their specific needs of service and scope of work with potential service providers. It would be unwise, and to some extent disrespectful, to dive in responding to a particular RFP or RFI without having taken into account the companies' actual situation and real intent, which might require further clarification and discussion to obtain. Listening to what the Chinese executives want and fear is the only way to start a productive business engagement that has the potential to lead somewhere.

Another component of communication is the language and style. It is important to be patient and show respect for Chinese executives who are not well versed in English. Some Chinese executives prefer to engage in English although they do not speak the language particularly well. It would be courteous to let them speak at their own pace, and do not treat them like a slow-understanding child. Also relevant is the style many Chinese executives tend to adopt while interacting with external parties. Comparatively speaking, they tend to be more reserved when showing emotions than their Western counterparts. It is not to be taken as a definite sign of indifference or unreceptive behavior. A useful approach is to engage them the way they prefer, the way they do things, which will be reciprocated and help facilitate amicable interactions, more conducive to rapport building.

Handling rejection

Given the Chinese reluctance to turn down a proposition in an outright manner, many of the rejections come in the form of subtle push-back (e.g. conditions that executives currently face which are not convenient) or stalling tactics (e.g. we are still assessing options.) When it happens, one should acknowledge it as what it is–the fact that your proposition does not resonate with them. However, this does not necessarily mean the end of the negotiation process. A Chinese deal lifecycle involves many rounds of negotiation and renegotiation. It is not uncommon to have a few versions of agreements overhauled before the final version gets accepted.

The last thing one should do in this scenario is simply walk away. The point to note is to stay composed–acknowledge, reassess, and reengage. Acknowledge the Chinese executives' dissatisfaction, reassess flaws in previous propositions, and re-engage the company with alternative or enhanced options. Even if no immediate work comes out of this process, the effort itself will be noticed and taken positively by the Chinese company. Given the other Guanxi Chinese executives tend to have, one may never know whether the proposition could find another audience within three degrees of separation, or be revisited by the company some time down the road.

Making compromise

Chinese companies appreciate a level of sophistication in deal negotiation. They respect counterparts who understand the subtleties and strategic thinking, not unlike a chess player's moves–trading (the loss of) a battle with a war.

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The less than linear process of negotiation when dealing with Chinese companies further complicates the picture and makes it more difficult for service providers unfamiliar with the Chinese way to negotiate from a position of strength, and make measured compromises that help seal the deal without encroaching upon its bottom line.

Instead of sweating over adding structure and discipline to how these negotiations will proceed, it would be a better use of time and effort to step back and prioritize. What is the ultimate objective of the negotiation? What does success look like? What elements form the indispensable part of that desired outcome, what are elements of less importance–therefore tradable–for greater good?

One thing to bear in mind is that irreconcilable differences for the Chinese are indeed extremely rare. The willingness to start a negotiation, and to have gone such a long way, show more than a superficial wish to work together. Nothing is entirely beyond limit for discussion and negotiation. Disagreements, no matter how severe they appear in form, are manageable as long as one is clear about the client's position and vision; and when situations arise, one is willing to show courtesy and sincerity in a shared long-term partnership by making concessions on matters deemed less crucial.

Following up: continuing friendship building

Following up after the deal is one behavioral element that helps cement the level of trust by adding finishing touches to the entire deal lifecycle. This is a gesture that showcases a long-term commitment to the relationship, which forms the foundation of any business interaction with Chinese counterparts.

This gesture of commitment could be more important than one thinks as it is intrinsically tied to how the Chinese companies value you, and how much they are willing to pay to continue working with you. For a business culture heavily influenced by personal relationships, there are ultimately two scenarios where Chinese companies are willing to pay a premium for services:

- out of absolute necessity (usually a result of regulatory pressure and/or investigation), and;
- in anticipation of great future business/friendship value as a result of mutual collaboration.

Following up with continuing friendship building is a genuine investment in a long-term relationship; this is what Chinese companies essentially appreciate, and are eventually willing to pay for.

Dealing effectively with the right partner(s)

Last but not least, Chinese companies tend to be complicated entities. Although usually operating along a hierarchical structure, they have dynamic inner checks and balances, as well as an intricate web of stakeholders that need to be managed, to ensure a mutually satisfactory bilateral relationship that's built to last.

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Within a Chinese company, the decision-maker ultimately shapes the direction of their strategy, approves the budget, makes go or no-go decisions on projects and deals with external parties. They might not be someone you would meet at the beginning of a business interaction, but this person has the ultimate say when it comes to the future of this particular business interaction.

The sponsor is the direct buyer of a project, who usually has a genuine interest in making the project work. He tends to be a mid-level manager who has their own battle to fight to form partnerships internally and externally. This person wishes to ensure the success of work under his direct supervision to ultimately gain Mianzi for superiors and on behalf of superiors (if he is not himself the decision-maker.)

A referral contact comes in different shapes, but usually refers to the person who made the initial introduction that led to a business interaction. This person may or may not be part of the client's organization. Nonetheless he has a good working knowledge of the organization and understands the inner power dynamics, challenges as well as opportunities. The referral contact is likely more detached from the actual business discussion, hence usually has a more objective grasp of how things are on the ground.

During a live business negotiation, one tends to get pulled into the inner power dynamic of the client organization. As a result, one could easily be tempted to over-focus on the decision-maker, catering to his every wish, without having sufficiently consulted the sponsor who ultimately will be hands-on delivering the actual project; not to mention at this stage, one is oftentimes considered too busy to keep close interaction with the initial referral contact. The subsequent business result from this scenario, even if in a form of an agreement, tends to be less than optimal.

In order to maximize the trust building impact, one should be able to address these three types of partners appropriately with equal importance. Neglecting any one type might lead to undesirable consequences down the road. A decision-maker is the ultimate wallet-holder and gatekeeper; his priorities and preferences should be studied, analyzed and fully taken into consideration when structuring any deal. The sponsor is the one person with a direct vested interest in making the deal a success, as much as the service provider. His pressure points should be noted and his limits understood; a mutually agreed future vision and appropriate approach towards realizing that vision should be fully explored and decided upon. The referral contact is the cultural reference point, the eyes and ears of the external service provider; his relative independence could serve as an ideal sounding board for service providers to retain their sense of objectivity and direction.

In other words, respect the decision-maker, work closely with the sponsor, and befriend the referral contact. Following this approach puts one on the right track to building a lifetime business partnership with Chinese companies. Never neglect any party as they all play indispensable roles in making any project a success.

Lastly, it is prudent to understand all these culturally relevant elements in the context of a relationship-building and management process. They serve to facilitate business interactions throughout the deal lifecycle, which help create a lasting and fruitful business collaboration for a lifetime. However, it would be counter-productive to overanalyze any specific element. Chinese companies are increasingly more savvy and receptive of international protocols when it comes to dealing with foreign business partners. They are pragmatic. If there is genuine business rationale behind a deal, they will do everything in their power to ensure that it will be a success.

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Endnotes

1. HSBC Report: What a globalizing China means for Africa and the Middle East, 2014

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