



# Winning with China Inc.

Reading the hearts and minds  
of Chinese multinationals  
operating in the Middle East



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## With a growing number of Chinese multinationals setting up shop across the Middle East, are we ready to deal with a business partner whose culture is so different to our own?

China's insatiable demand for oil is said to be the driving factor that kept crude oil prices in triple-digit U.S. dollar figures for years, which in turn has added an estimated US\$1 trillion to the GDP of the GCC countries over a 10-year period (2003-2013)<sup>1</sup>. 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 the 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.

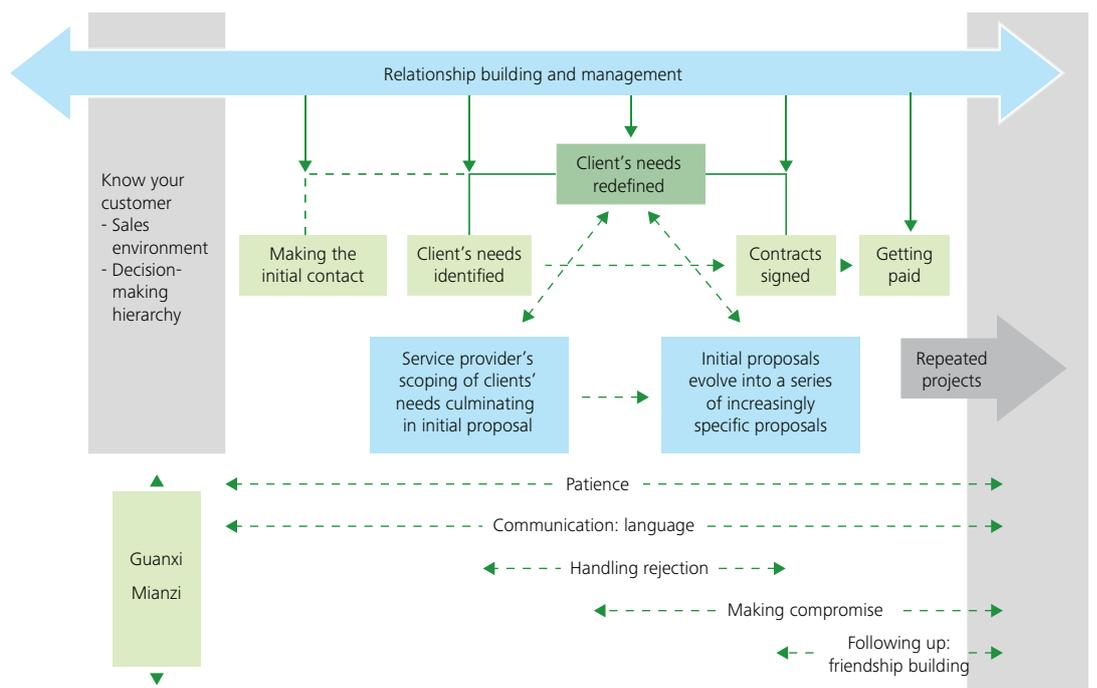
Of course, business is business at end of the day; hence the same commercial common sense applies regardless of where the clients come from. However, when it comes to dealing with this culturally and linguistically distinct group of clients, most of whom are relatively new in working within pre-defined 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.

**Deal lifecycle with a typical Chinese client**

It is important to understand that a typical onboarding and buying process of Chinese clients 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 straightforward manner: 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 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 clients' needs would usually still be developing when initial contact occurred. 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 clients, the RFP or the whole buying process is usually less formal.



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

- convince the Chinese clients 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 clients. 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. 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 clients 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 client.

#### **The importance of trust in a relationship**

This distinct process 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.

#### **Guanxi and Mianzi**

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

Contrary to public perception, Guanxi (a.k.a. 'connection') is not your typical nepotism fraught with bribery and corrupt practices of trading authority with

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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 clients value long-term relationships and 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, Chinese clients 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 client 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.

One is often advised to exercise cultural sensitivity and precaution in situations where Chinese clients' Mianzi might be at stake. 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 or challenging a senior executive's idea in front of subordinates.

#### Elements of trust-building

##### Patience

It is rare for a Chinese client to jump into serious business discussions when meeting someone for the first time, which is particularly the case with the more senior management/C-suite executives. Losing patience, even in a private setting, would be interpreted as an insult and reflect very negatively on oneself. Clients need to feel that one cares about their business before discussing and entrusting mega-transformational projects to that person/company.

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##### Communication

Successful communication starts with listening. This applies universally but particularly rings true for Chinese clients. They tend to have a stronger penchant to co-develop and redefine 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 clients' actual situation and real intent.

##### 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 pushback or stalling tactics. 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. The last thing one should do in this scenario is simply walk away. The point to note is to stay composed—acknowledge the clients' dissatisfaction, reassess flaws in previous propositions, and re-engage the client with alternative or enhanced options.

##### Making compromise

Chinese clients 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—losing a battle to win the war. One thing to bear in mind is that irreconcilable differences for the Chinese are indeed extremely rare. 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

For a business culture heavily influenced by personal relationships, there are ultimately two scenarios where Chinese clients are willing to pay a premium for services:

- 1) out of absolute necessity (usually a result of regulatory pressure and/or investigation), and;
- 2) 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 clients essentially appreciate, and are eventually willing to pay for.

### Dealing effectively with the right partner(s)

Chinese companies tend to be complicated entities with 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.

Among the myriad stakeholders, it is essential to know how to work with at least three types of them: the decision-maker, the sponsor, and the friendly coach and/or referral contact.

In order to maximize the trust-building impact, one should be able to address these three types of partners appropriately with equal importance. 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 coach/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. 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

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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 clients 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.

by **James Babb**, partner, Clients & Industries and **Madeleine Chen Todd**, manager, Chinese services desk, Deloitte Middle East

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#### Endnotes

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