

# How to Manage a Contract in China

By Dr. Camille Schuster

Since China joined the World Trade Organization in December of 2001, United States exports to China have been on the rise. In 2002, exports increased by fifteen percent, and in 2003, they increased by thirty percent. But as American business interests in China increase, the cultural differences of doing business become more apparent. If you are interested in contracting to do businesses in China, you must be prepared for cultural challenges.

Managing a contract in China is not like managing a contract in a country with a developed legal system, enforceable government regulations, and a dependable infrastructure. In the latter countries, you can sign the contract, walk away, and know what will happen when. In China, however, managing the contract means something very different.

## How is China Different?

In the U.S., a signed contract signifies that all parties know who will do what, with what level of quality, and by what deadline. Each party agrees to do everything within their power to adhere to the contract and the contract often identifies consequences for non-compliance. Once the contract is signed, the parties move on to fulfill the contract, knowing that everyone will do their part.

These assumptions regarding contracts do not exist in China. The saying goes that in China, signing a contract signifies the *beginning* of negotiations. By signing a contract in China, parties agree that they want to do business with one another, that the goals of the contract are desirable, and that the terms of the contract are reasonable. However, everyone knows that life is unpredictable, that the future is uncertain, and that specific activities do not always happen as planned. That's just the nature of daily life in a country like China.

So, what does the contract mean in China? In a country where the jurisdiction of local, regional, and central government regulations changes often, where regulations are applied on a case-by-case basis, and where regulations in the special economic zones can differ from regulations in the rest of the country, enforcement of regulations is uncertain. China has an evolving legal system; therefore, the processes and procedures to protect rights are not fully functioning systems. And when the government does not apply one single set of regulations across the whole country, or when it changes regulations as happens in the process of development, the system is unstable and unpredictable.

Because China is a country with a developing and evolving legal system, relying on courts to enforce contracts is risky at best. In a country with an evolving infrastructure, everything from timely distribution to a steady supply of electricity to predictable enforcement of regulations is uncertain. Therefore, nothing happens in a predictable timeline. So, if the terms of the contract are not "set in stone" when the contract is signed, how can you manage it?

Use the following four guidelines for conducting business in China:

### 1. Maintain Constant Communication

The first rule for successful business contracts in China is to maintain frequent, regular interactive communication. Instead of waiting until the contract deadline to find out that the agreed upon delivery will not be made, frequent conversations on the status of the order, problems, delays, or questions are necessary.

### 2. Engaging Conversation

Engage contacts in two-way interactive conversation. Asking "yes, no" questions will not generate useful information. Because of the cultural need to "save face" and to preserve harmony in China, the

answer to any “yes/no” question will be “yes” or “no problem.” You will be spared embarrassment, you will feel reassured, and you will know nothing.

To get more useful information, your contacts need to be engaged in conversation about their environment, themselves, the work process, and your offers of assistance. For example, instead of asking your Chinese contact if the production deadline will be met, you must take a more qualitative approach. Try asking your contact about significant events during the past week or month, or to describe recent activities of members of their team. Through a number of indirect questions such as these, you can infer what is really happening.

### **3. Meet Face-to-Face**

While some conversations can take place over the Internet, by fax, or via phone, they will only be successful if those are supplemental or follow-up conversations to face-to-face meetings. Citizens of the People’s Republic of China are members of a relationship culture that requires personal, one-to-one commitment. That type of relationship develops over time by working together, socializing together, and interacting in person.

Verbal communication serves to maintain harmony and maintain face, so the style is usually indirect. Gathering information using an indirect style of communication is most successful when combined with direct observation of facilities, systems, and business processes. That can only be done in person. So if you want to establish a business relationship with people in a Chinese company, you must plan a large travel budget in order to get a clear picture of the business.

### **4. Represent All Levels**

Finally, face-to-face communication needs to occur with several members of your team who are at different levels of the hierarchy. Since the Chinese culture is hierarchical and communication serves to preserve harmony, problems are not freely discussed with superiors. For example, a front line worker won’t discuss problems with the company Vice President. To develop the most effective channels of communication, your team needs to include people at different levels of the hierarchy so that quality control managers talk with other quality control managers, vice presidents talk with other vice presidents, and managers talk with other managers.

For example, by having representatives from different levels of the hierarchy travel as a group, teams can tour the facilities in China, develop relationships with people at different levels of hierarchy in the Chinese company, and conduct formal and informal communication. Each of your other team members can do the same with his or her counterpart. Periodic visits can include different combinations of team members to keep the lines of communication open, the relationships strong, and allow for observations of each area of business.

### **Contract Maintenance for the Future**

Signing a contract with a company in China and walking away to wait for the desired result is a recipe for disaster. But to an American, assuming that the contract means the beginning of negotiation with the expectation that the terms may change is unthinkable. However, that’s just the way business is done in their country. So if you want to manage a contract successfully with a company in China, your expectations need to be realistic.

When you set aside your U.S. expectations regarding business processes and use these four guidelines for managing contracts in China, you can adapt to existing cultural differences and establish the relationships required for success.

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