

Negotiating International Business - Hong Kong

This section is an excerpt from the book "Negotiating International Business - The Negotiator's Reference Guide to 50 Countries Around the World" by Lothar Katz. It has been updated with inputs from readers and others, most recently in March 2008.

Reunited with China since the British rule ended in 1997, Hong Kong is technically a Chinese Special Administration Region, not a separate country. However, its quite homogeneous culture remains distinctly different from China's in several important areas. It would be a mistake to assume that Hong Kong and China are practically the same. One needs to prepare separately for negotiations in Hong Kong. With its entrepreneurial and intensely fast-paced business culture, Hong Kong in some ways stands in closer comparison with the United States than with China. Businesspeople in Hong Kong are generally less long-term oriented than their brethren in the People's Republic.

Hong Kong's businesspeople, especially those among younger generations, are usually experienced in interacting and doing business with visitors from other cultures. When negotiating business here, expect most people to be flexible and open-minded as they are eager to do business with others.

Relationships and Respect

Hong Kong's culture is generally group-oriented. Asserting individual preferences may be seen as less important than having a sense of belonging to a group, conforming to its norms, and maintaining harmony among its members. Building lasting and trusting personal relationships is therefore very important. While members of other cultures may expect this to happen gradually over the course of a business engagement, many Hong Kong Chinese expect to establish some level of relationship prior to closing any deals. Although this is gradually changing, it is still advantageous to proceed with serious business discussions only after you allowed your counterparts to become comfortable with you as a person. Once you have proven yourself a trustworthy partner, making the next deal will become much easier.

Relationships are based on familiarity, respect, and personal trust. Unlike in most western countries, business relationships in Hong Kong exist mostly between individuals or groups of people rather than between companies. Accordingly, if your company replaces you with another representative, relationships need to be built anew.

In Hong Kong's culture, 'saving face' is also critical. Harmony must be maintained at all cost, and emotional restraint is held in high esteem. Causing embarrassment to another person may cause a *loss of face* for all parties involved and can be disastrous for business negotiations. Reputation and social standing strongly depend on a person's ability to control one's emotions and remain friendly at all times. If you have to bring up an unpleasant topic with a person, never do so in public and always convey your message in ways that maintain the other's self-respect. The importance of diplomatic restraint and tact cannot be overestimated. Keep your cool and never show openly that you are upset.

Remaining modest and doing everything you can to maintain cordial relations is crucial to your success. When receiving praise, insist that you are not worthy of it or belittle your accomplishments, but thank the other for the compliment. This should not stop you from complimenting others. While the Hong Kong Chinese view politeness and humility as essential ingredients for a successful relationship, these factors do not affect their determination to reach business goals. They are patient and persistent in pursuing their objectives. It is in your best interest to do the same.

In Hong Kong's business culture, the respect a person enjoys depends primarily on his or her status, rank, achievements, and education. It is also important to treat elderly people with great respect. Admired personal traits include humility, sincerity, and fine manners.

Communication

Hong Kong's official languages are Chinese and English. Cantonese is the most widely spoken Chinese dialect here. Many businesspeople speak English, often quite well. However, it may occasionally be useful to have an interpreter. To avoid offending the other side, ask beforehand whether an interpreter should be present at a meeting. When communicating in English, speak in short, simple sentences and avoid using slang and jargon.

Businesspeople in Hong Kong usually speak in quiet, gentle tones. Conversations may occasionally include extended periods of silence. This does not necessarily convey a negative message. At times, Hong Kong Chinese people talking among themselves may appear emotional, but this would be misleading. To the contrary, emotional restraint is held in high esteem. At restaurants, especially those used for business lunches and dinners, keep conversations at a quiet level. Loud and boisterous behavior is perceived as a lack of self-control. People generally converse while standing around two to three feet apart.

Because the concept of 'saving face' is so important in this culture, communication is generally very indirect. When responding to a direct question, Hong Kong Chinese may answer 'yes' only to signal that they heard what you said, not that they agree with it. Open disagreement should be avoided and any kind of direct confrontation is discouraged. People rarely respond to a question or request with a direct 'no.' Instead, they may give seemingly ambiguous answers such as 'I am not sure,' 'we will think about it,' or 'this will require further investigation.' Each of these could mean 'no.' It is beneficial to use a similarly indirect approach when dealing with Hong Kong Chinese, as they may perceive you as rude and pushy if you are too direct. Only a person with whom you have no relationship yet may occasionally give you a straight 'no.' This is a bad sign since it could mean that your counterpart is not interested in engaging in business with you. If you have to convey bad news to the Chinese side, a face-saving way is to use a third party instead of communicating it yourself.

Gestures can be very subtle in Hong Kong. Non-verbal communication is important, though, and you should carefully watch for others' small hints, just as they will be watching you. Avoid touching other people except for handshakes. When pointing at people or objects, use your open hand rather than a finger. When referring to themselves, people put an index finger on their nose rather than pointing at their chest as Westerners do. Eye contact should be infrequent. While it is beneficial to make some eye contact when meeting a person for the first time, the Hong Kong Chinese consider frequent eye contact intrusive and rude.

Do not take offense in Hong Kong businesspeople answering their mobile phones all the time, even in the middle of important discussions. In this polychronic culture, interrupting one conversation to have another one and then coming back to the first one is perfectly acceptable. It is not a sign of disrespect.

Initial Contacts and Meetings

Having a local contact can be an advantage but is usually not a necessary precondition to doing business. Most Hong Kong Chinese are experienced in doing international business.

It is often better to conduct negotiations in Hong Kong with a team of negotiators than to rely on a single individual. This signals importance, facilitates stronger relationship building, and may speed up the overall process. In addition, Hong Kong teams usually include highly skilled negotiators

who know how to outmaneuver even well prepared individual counterparts. Facing them as a team will significantly strengthen your position. It is vital that teams be well aligned, with roles clearly assigned to each member. Local negotiators may be very good at exploiting disagreements between members of the other team to their advantage. Changing a team member may require the relationship building process to start over and should therefore be avoided.

If possible, schedule meetings at least three weeks in advance. Since the Chinese want to know whom they will be meeting, provide details on titles, positions, and responsibilities of attendees ahead of time. Agreeing on an agenda upfront can also be useful. Given the strong emphasis on hierarchy, a senior executive should lead the negotiations for your company and your negotiating team should include senior leaders who know your company well.

People are careful not to waste others' time. Being late to a meeting or social event without having a valid and plausible excuse can be an affront. Call ahead if you are going to be more than five minutes late. If a delay happened, which given the sometimes chaotic traffic is sometimes inevitable, apologize profoundly even if it was not your fault. The most senior person on your team should enter the meeting room first.

Chinese names are traditionally given in the order of family name, first name, where the latter may consist of two names, the generational name and the given name. These two are usually hyphenated but may be spoken and written as one. Many people use assumed western first names, in which case they give theirs in the order of first name followed by family name. Like their mainland neighbors, the Hong Kong Chinese are very status-conscious. If a person has a title or doctorate degree, use it to address that person, for example, 'Doctor Ng' or 'Director Chan.' Otherwise, use *Mr.* / *Ms.* plus the family name. Introduce and greet older people first. Before calling Hong Kong Chinese by their first name, wait until they offer it. Greetings are accompanied by slight bows and/or handshakes, which are light and may last as long as ten seconds.

The exchange of business cards is an essential step when meeting someone for the first time, so bring more than you need. If someone presents you with his or her card and you do not offer one in return, the person will assume that you either do not want to make their acquaintance, that your status in your company's hierarchy is very low, or, quite to the contrary, that your status is very high. Although many people are able to read English, it is preferable to use cards with one side in English and the other in Chinese. Show doctorate degrees on your card and make sure that it clearly states your professional title, especially if you have the seniority to make decisions. If any facts about your company are particularly noteworthy, for instance if it is the oldest or largest in your country or industry, mention this on your card since Hong Kong businesspeople may view it very favorably. Also, consider having your company logo (but not the whole card) printed in gold ink. In Chinese culture, gold is the color of prosperity.

Present your card with two hands, and ensure that the Chinese side is facing the recipient. Similarly, accept others' cards using both hands if possible. Smile and make eye contact while doing so, then examine the card carefully. Not reading someone's card can be an insult. Next, place the card on the table in front of you or into your card case. Never stuff someone's card into your back pocket or otherwise treat it disrespectfully.

At the beginning of a meeting, there may or may not be some small talk. It is best to let the local side set the pace and follow along. People appreciate a sense of humor, but keep it light and friendly, and be careful not to overdo it. Business is usually a serious matter in Hong Kong. While you will generally find the atmosphere to be pleasant at the first meeting, things may get very intense as the negotiation progresses.

The primary purpose of the first meeting is to get to know each other, start building relationships, and gather information about the other side's areas of interest, goals, and weak points for the up-

coming negotiation. The most senior members of your group should lead the discussion. It is inappropriate for subordinates to interrupt. It is good to make a presentation, but keep it simple and avoid over-designing it. Verify through diplomatic questions whether your audience understands you. Since saving *face* is so important to the Chinese, people will not openly admit it in front of others if they do not understand what you are presenting.

You will likely find the atmosphere of the first meeting to be pleasant and amicable. Do not take this to mean that your negotiation will be easy. People may turn tough and much more intense as soon as the real negotiation starts. In this culture of respecting each others' *face*, the context of a situation often determines what behaviors are appropriate.

Most Chinese are comfortable with a high degree of initial vagueness. They may seem disinterested in clarifying many details until you have both come a long way with the business deal. Westerners may be uncomfortable with this perceived level of uncertainty. While it is acceptable and useful to try and clarify as much detail as possible even when your counterpart may not be eager to do so, do not read anything else into this style.

You should bring a sufficient number of copies of anything you present, such that each attendee gets one. The appearance of your presentation materials is not very important as long as you include good and easy-to-understand visuals. Because many colors have a special meaning for the Chinese, it is advisable to keep presentation copies, and even your actual slides, to black and white. Red is generally safe to use for illustrations and backgrounds since the Chinese consider it a happy color, but do not use it for text. Having your handout materials translated to Chinese is not a must, but it helps in getting your messages across. Bring a sufficient number of copies such that each attendee gets one. You may have to make presentations to different levels of the organization in subsequent meetings; make sure that each is tailored to its audience.

Negotiation

Attitudes and Styles - In Hong Kong, the primary approach to negotiating is to employ distributive and contingency bargaining. While the buyer is in a superior position, both sides in a business deal own the responsibility to reach agreement. They expect long-term commitments from their business partners and will focus mostly on long-term benefits. Although the primary negotiation style is competitive, the Hong Kong Chinese nevertheless value long-term relationships. Negotiators may at times appear highly competitive, though rarely adversarial. However, even when negotiating in a fairly direct and aggressive fashion, they ultimately maintain a long-term perspective and remain willing to compromise for the sake of the relationship. The culture promotes a win-win approach since this is the best way for everyone to save *face* throughout a negotiation. Do not confuse the sometimes-aggressive style with bad intentions. Keeping relationships intact throughout your negotiation is vital. It is therefore best to remain calm, friendly, patient, and persistent, never taking anything personally. It will also be very important to maintain continuity in the objectives you pursue, the messages you deliver, and the people you include in the negotiation.

Should a dispute arise at any stage of a negotiation, you might be able to reach resolution through emphasizing the benefits to both sides, remaining flexible and showing willingness to compromise. Show your commitment to the relationship and refrain from using logical reasoning or becoming argumentative since this will only make matters worse. Patience and creativity will pay strong dividends. In extreme situations, a mediator, ideally the party who initially introduced you, may help move the negotiation forward.

Sharing of Information – Hong Kong negotiators may be willing to spend considerable time gathering information and discussing various details before the bargaining stage of a negotiation can begin. Information is shared more openly than in China as Hong Kong's businesspeople believe in

the value of give-and-take. However, expecting your counterpart to reveal everything you might want to know during your negotiation would be naïve.

Keep in mind that humility is a virtue in Hong Kong's business culture. If you make exaggerated claims in an effort to impress the other side or to obtain concessions, they will likely investigate your claims before responding.

Pace of Negotiation – While the implementation of agreements will be fast and swift, negotiations can be slow and protracted, with extensive attention paid to small details. Relationship building, information gathering, bargaining, and decision making all take time. Furthermore, negotiators often attempt to wear you down in an effort to obtain concessions. Be prepared to make several trips if necessary to achieve your objectives. Throughout the negotiation, be patient, show little emotion, and accept that delays may occur.

The Hong Kong Chinese generally employ a polychronic work style. They are used to pursuing multiple actions and goals in parallel. When negotiating, they often take a holistic approach and may jump back and forth between topics rather than addressing them in sequential order. In multi-item negotiations, they may bargain and haggle over several items. It is not unusual for them to reopen a discussion over items that had already been agreed upon. In addition, they may take phone calls or interrupt meetings at critical points in a negotiation. While they may be doing some of this on purpose in order to confuse the other side, there are usually no bad intentions. Negotiators from strongly monochronic cultures, such as Germany, the United Kingdom, or the United States, may nonetheless find this style highly confusing and irritating. In any case, do not show irritation or anger when encountering this behavior. Instead, keep track of the bargaining progress at all times, often emphasizing areas where agreement already exists.

If your counterparts appear to be stalling the negotiation, assess carefully whether their slowing down the process indicates that they are evaluating alternatives or that they are not interested in doing business with you. While such behavior could represent attempts to create time pressure in order to obtain concessions, the slow decision process in the country is far more likely causing the lack of progress. People from fast-paced cultures tend to underestimate how much time this takes and often make the mistake of trying to 'speed things up.' Again, patience and persistence are vitally important.

Bargaining – Many Hong Kong businesspeople are shrewd negotiators who should not be underestimated. Although tactics may not be as extreme as those of their mainland neighbors, bargaining and haggling are aspects of everyday life in Hong Kong and its people are often skilled in using a wide array of negotiation techniques. The bargaining stage of a negotiation can be extensive. Prices may move by about 25 to 35 percent between initial offers and final agreement, sometimes even more. Leave yourself sufficient room for concessions at many different levels and prepare several alternative options. This gives the local negotiators room to refuse aspects of your proposal while preserving face. Ask the other side to reciprocate if you make concessions. It is not advisable to make significant early concessions since your counterparts expect further compromises as the bargaining continues. You can use the fact that aspects can be re-visited to your advantage, for instance by offering further concessions under the condition that the other side reciprocate in areas that had already been agreed upon.

Deceptive techniques are frequent, and Hong Kong negotiators may expect you to use some of them as well. This includes tactics such as telling lies and sending fake non-verbal messages, pretending to be disinterested in the whole deal or in single concessions, misrepresenting an item's value, or making false demands and concessions. Do not take such tactics personally and realize

that overt attempts to lie at or bluff your counterparts could backfire and might damage business relationships. It is advisable to verify information received from the local side through other channels, though. Similarly, they treat 'outside' information with caution. Since negotiation teams must be well aligned and always have to preserve face, businesspeople rarely use 'good cop, bad cop.' It can sometimes be beneficial to use this tactic in your own negotiation approach. Carefully orchestrated, they may allow you to obtain valuable concessions without damaging the overall relationship. However, it could be devastating if the other side recognized this as a tactic, and any 'bad cop' member of your team also needs to be excluded from future negotiation rounds. Depending on the decision structures within their company, the Hong Kong Chinese may or may not use the 'limited authority' technique.

Negotiators may use pressure techniques that include keeping silent, making final or expiring offers, applying time pressure, or nibbling. Final offers may be made more than once and are almost never final. Do not announce any of your offers as 'final'— your counterparts will likely not believe that you are serious and may turn the tactic against you. Time pressure can be difficult to counter. If negotiators learn that you are working against a deadline, they may exploit this knowledge to increase the pressure on you to make concessions. Near the end of a negotiation, they may suddenly request large discounts, calling their request a 'compromise.' In extreme cases, they may try to renegotiate the whole deal on the final day of your visit. It is important never to take such techniques personally and to avoid open conflict. On the other hand, time pressure techniques rarely work against them since businesspeople in Hong Kong are patient and persistent enough to overcome such challenges. However, you might be able to use these techniques should the negotiation take place on your home turf rather than in Hong Kong. Silence can sometimes be effective as a way to convey displeasure, and nibbling may prove useful in the final phases of negotiations. None of this will take your counterparts by surprise, though. Avoid other common pressure tactics such as opening with your best offer or showing intransigence, since they cannot be applied effectively without running the risk of causing loss of face.

Hong Kong negotiators avoid most aggressive or adversarial techniques since they affect face. The risk of using any of them yourself is rarely worth the potential gain. Exceptions are extreme openings, which the Hong Kong Chinese use frequently, as well as threats and warnings. As long as an extreme opening offer is not openly aggressive, this approach can be effective. Should your counterparts appear aggressive as the bargaining gets more heated, remind yourself that they may not perceive it that way. It might be wise to deflect the pressure, for example by explaining other arrangements you have accepted for similar deals in the past.

As in most strongly relationship-oriented cultures, negotiators may sometimes use emotional techniques such as attitudinal bargaining, attempting to make you feel guilty, grimacing, or appealing to personal relationships. Be cautious when doing this yourself. You might cause the other side to lose face, which could in turn damage your negotiating position. Another emotional tactic you may encounter is if your counterpart proposes to 'split the difference.' You may often find that it is not in your best interest to accept. Politely explain why you cannot agree and make a counterproposal.

At times, defensive negotiation tactics may be used. The exception is directness, which is rare in Hong Kong. People may be shocked if you are overly direct yourself, which can be counterproductive.

Note that opening with written offers and attempting to introduce written terms and conditions as a negotiation tactic is rarely successful. In most cases, businesspeople ignore or tactfully reject them and request that each aspect be negotiated individually.

Corruption and bribery are rare in Hong Kong. It is strongly advisable to stay away from giving gifts of significant value to individuals or making offers that could be read as bribery.

Decision Making – Most of Hong Kong's companies tend to be very hierarchical, and people expect to work within clearly established lines of authority. While decision making can be a consensus-oriented group process as is usually the case in mainland China, there are also many western-style entrepreneurs in Hong Kong who act as the sole decision makers within their companies. In any case, it is important for the decision maker to consider the group interests and consult with others. Decision making can be fast, or it may take a long time and require a lot of patience.

When making decisions, businesspeople usually consider the specific situation rather than applying universal principles. Personal feelings and experiences may weigh more strongly than empirical evidence, but they also consider objective facts. The Hong Kong Chinese are more likely to take risks than their mainland siblings are, but they also need to become comfortable with them first.

Agreements and Contracts

Capturing and exchanging meeting summaries can be an effective way to verify understanding and commitments. Although interim agreements are usually kept, do not consider them final. Only a final contract signed by both parties constitutes a binding agreement.

The Hong Kong Chinese are influenced by two very different views of the roles of agreements and contracts. On one hand, the traditional Chinese position is that agreements are just snapshots in time. They view contracts as papers that document the intent of a working relationship at the time they were written up and signed, not as final agreements that can stand the test of litigation. On the other hand, there is the British influence, which dictates that contracts be taken seriously and followed to the letter. As a result, final written contracts are usually dependable, although it is always wise to nurture your relationship with a Hong Kong partner on a continuous basis.

Written contracts tend to be lengthy. They often spell out detailed terms and conditions for the core agreements as well as for many eventualities. Signing the contract is important not only from a legal perspective, but also as a strong confirmation of your partners' commitment. Before signing one, read it carefully. The Hong Kong side may have made modifications without flagging them. While this could be perceived as bad-faith negotiation in other cultures, local businesspeople may view the changes as clarifications.

Your legal rights are usually enforceable. It is recommended that you consult a local legal expert before signing a contract. Also, ensure that your products are patented or registered in Hong Kong to protect them against imitation. However, do not bring an attorney to the negotiation table, as this may be taken as a sign that you do not trust your counterparts.

Contracts are usually dependable, and the agreed terms are viewed as binding. Nevertheless, businesspeople may continue to press for a better deal even after a contract has been signed. They may call 'clarification meetings' to re-discuss or further work out details. Never view the contract signature as the end point of the negotiation. Your best chance to ensure that your partners follow through on their commitments is to stay in regular contact and nurture the relationship throughout your business engagement.

Women in Business

Gender roles in Hong Kong are clearly distinct. However, western-style equality is having some influence, and women may be found in senior positions.

As a visiting businesswoman, you will generally encounter few problems when visiting Hong Kong, provided that you exercise caution and act professionally in business and social situations. Displaying confidence and some degree of assertiveness sometimes impresses male Chinese counterparts,

but it is important not to appear overly bold and aggressive. If you feel that your counterparts may be questioning your competence, it can be helpful to emphasize your company's importance and your role in it. A personal introduction or at least a letter of support from a senior executive within your company may help a lot.

Other Important Things to Know

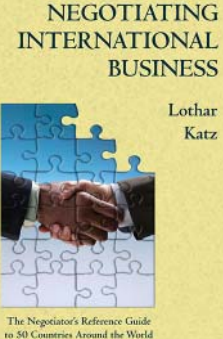
Business meals and entertainment, in particular banquets and other evening events, are important as they help advance the vital process of building strong relationships. Refusing to participate in these activities is a signal that you are not seriously interested in doing business with your counterparts. Business may be discussed during these events. Your counterparts may use them as opportunities to convey important messages or resolve disputes. Sometimes they may also try to obtain information from you that could strengthen their negotiating position. While you want to remain watchful, deflecting such inquiries if needed, never show signs of mistrust in your counterparts' intentions.

Especially with local companies that lack international expertise, business entertainment may sometimes include invitations Westerners may find highly inappropriate. In such cases, it will be very important to find a way to avoid the issue without openly rejecting the invitation, as this helps preserve *face* for all involved.

The Hong Kong Chinese value punctuality in most social settings. It is best to be right on time for dinners and banquets, and to arrive at parties within 10 to 15 minutes of the agreed time.

Gift giving is common in social and business settings in Hong Kong. If you received one, it is best to reciprocate with an item of similar value that is typical of your home country. Giving a gift after signing a contract is viewed very favorably. However, while gifts of significant value will be accepted to save face, the recipient company would likely give them to charity or use them in a raffle later. Give and accept gifts using both hands. Do not open gifts in the presence of the giver unless your host did so first. There are numerous potential pitfalls in what to give and how to wrap it, so prepare upfront or ask someone from the country to avoid causing embarrassment.

The ancient Chinese astrology of *fengshui* plays a significant role in Hong Kong's business life and must be respected. It is wise to include a *fengshui* consultation when preparing for celebrations, opening an office, signing a contract, or similar events.

 <p>NEGOTIATING INTERNATIONAL BUSINESS</p> <p>Lothar Katz</p> <p>The Negotiator's Reference Guide to 50 Countries Around the World</p>	<p><i>Negotiating International Business</i> (Booksurge Publishing, second edition 2007) is available from Amazon.com and other bookstores for \$29.99. A reference guide covering 50 countries around the world, the 472-page book includes an extensive discussion of the negotiation principles and tactics frequently referred to in this excerpt.</p> <p>Please recommend this Country Section and others to colleagues who might find them useful. Country Sections are available individually at</p> <p>www.NegIntBiz.com</p>
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