



Analysis on Background Investigation in International Business Negotiations

Gao Yanhua

School of Business Administration, Xi'an Eurasia University, Xi'an, China

Email address:

gaoyanhua@eurasia.edu

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Abstract: During international business negotiations, the stakeholders of business activities in different countries or regions negotiate the various elements of a transaction for the purpose of economic interests or in order to complete a transaction. International business negotiations are very important in international business activities which are means to solve the conflict of interests and achieve common interests among the subjects of business activities of different countries. Background investigation makes solid foundation for the further phases of negotiations, which directly determines the success of negotiations. The paper focuses on background investigation of international business negotiations to fulfill the anticipated objectives. In order to give instructions to the negotiating parties who are willing to obtain benefits from the negotiations, Contents of Background Survey, including Negotiation Environment Survey, Market Information Survey, and Survey on Negotiating Partner; Means of Background Investigation including Information Channels of Background Investigation, Methods of Background Investigation, Principles of Background Investigation are analysed in details. Only abundant consideration given during negotiations and enough background investigation made, will it be possible to achieve a win-win result after the negotiations. Extra attention given to 5 Methods of Background Investigation and 5 Principles of Background Investigation, which will give instructions to negotiating partners for better background investigation and resulting in better benefits to both sides.

Keywords: International Business, Negotiation, Background Investigation

1. Introduction

International business negotiations refer to the process in which the stakeholders of business activities in different countries or regions negotiate the various elements of a transaction for the purpose of economic interests or in order to complete a transaction. International business negotiations are very important in international business activities which are means to solve the conflict of interests and achieve common interests among the subjects of business activities of different countries. Background investigation is the first step to carry out business investigations. Analysis on the content and means of background investigation makes great sense for a successful negotiation. [1]

2. Contents of Background Survey

2.1. Negotiation Environment Survey

The social environment of business negotiations is

complicated, such as economic environment, social and cultural environment, resource environment and other important factors, which have influences that cannot be ignored. [2] Therefore, in the preparatory work for the negotiations, negotiators need to conduct a systematic and comprehensive investigation and analysis of the overall negotiation environment to lay a good foundation for the following negotiation strategies. The main contents of negotiation environment survey include the following aspects.

2.1.1. Macro Environment

Although business negotiations are usually purely for commercial purposes, they can also be influenced by other factors. [3] For example, if business negotiations have the purpose of the national government or negotiating party, then in this case, the commercial technology will always give way to the macro factor, and the result of the negotiations will be restricted by the national policy.[4]

Both the stability of the country and the friendly relations between the governments of the negotiating parties have an impact on business cooperation. In the event of unrest, outbreak of war, or hostile conflict in the countries where the negotiators are located, negotiations will face numerous obstacles, and may be forced to suspend, or the agreements reached cannot be implemented, which will cause huge losses to both sides.

2.1.2. Financial and Monetary Environment

During the preparation of negotiations, one should be aware of the overall financial and monetary situation of the other party's country, such as external debt, foreign exchange reserves and foreign exchange payments.

If a country's external debt is too high, it may be unable to pay for transactions because of its external debt. If a country has more foreign exchange reserves, it indicates that the country has a strong ability of external payment. Foreign payments may be difficult if the reserves are small. At the same time, the procedures and links of the subsequent foreign exchange payment stage should also be considered.

2.1.3. Social and Cultural Environment

In international business negotiations, negotiators are actually a cultural collective or a cultural epitome of a country. Their way of thinking, words and deeds are inevitably affected by the religious belief, social contact, social customs and communication etiquette of the country where they are located. [5] For example, influenced by Christianity, Germans attach great importance to public norms such as order and privacy in social life. In business, Germans absolutely execute the contracts and refuse requests of late delivery or payment date, etc. And it is common for Saudi Arabian to invite the other party to their home to negotiate. It's important to note that Arabs do not like other men talking about their wives, much less physical contact. These are deeply influenced by local Muslim teachings. In addition, because of the country's prohibition of alcohol, any alcoholic items, such as wine and perfume, should not be chosen as gifts during the early contact with Arab businessmen.

2.1.4. Policies and Regulations

In international business negotiations, it is necessary to know the relevant economic policies and legal provisions, tariff rates and tax methods, foreign exchange control policies, import and export quotas and import and export license systems of the other country or region.

2.1.5. Business Practices

Different businesses in different countries have different ways of doing business, so it is necessary to know each other's power holders and main principals before negotiation. For example, when negotiating with Japanese, the decision-making of Japanese enterprises usually requires all levels of personnel to have long communication and discussion and joint participation before reaching consensus and making the final decision by senior staff.

During the negotiation process, enterprises have different requirements for written records or agreements. Some negotiators require that everything be written and the whole contents be recorded. [6] They consider that only written agreements have the force of constraint. However, some negotiating parties make guarantee by reputation or oral commitment. They think that the original agreement or plan can be adjusted according to the actual situation, even though the negotiations finally succeed and the agreement has been signed.

During the negotiations and signing process, some negotiating parties will send lawyers to be present during the whole process as professional consultants to check the validity of the contract while some lawyers sent are just to be assistants.

2.2. Market Information Survey

Market information is a general term of all kind of news, materials, data and information that reflects the characteristics of market economic activities and their development and changes. Generally, there are two types of forms, one is text structure to express the content of market information, the other is data structure such as statistical statements, etc. The main contents of market information include the following aspects.

2.2.1. Domestic and Foreign Market Distribution

The information of domestic and foreign market distribution refers to market distribution, geographical location, transport conditions, economic conditions, market potential and capacity, as well as the economic connection between one market and other markets.

With the development of science and technology, the progress of productivity and the acceleration of capital flow, international trade cooperation constantly deepens and commodities involved expand continuously in their variety, quantity and scale.[7] Therefore, in the preparation stage of negotiations, fully investigating the target market of products involved and determining the sales development plan in the long, medium and short term is helpful for the setting of negotiation objective.

2.2.2. Consumer Demand

The information of consumer demand includes: The reason and condition that consumers start to use a specific brand; The term, reason and condition of consumers' loyalty to a certain brand; Consumers' attitude towards product and business market activities; Multiple uses of the product; The number of times the product is used and the amount of consumption; [8] The quantity and potential quantity of the product; Market coverage and market share of products; The impact of market competition on sales volume.

2.2.3. Product Sales

It is necessary for sellers to investigate the sales of their products and the rival products while it is necessary for buyers to investigate sales status, development trend, market share, consumer demand status and evaluation of the product.

Through the survey of product sales, negotiators can have a general understanding of the market capacity, sales volume, etc., which can help to determine the sales or purchasing quantity of the product involved in future negotiations.

2.2.4. Product Competition

Information on product competition mainly includes: The number and size of competitors producing or buying similar products and the type of such products; Market share and future changing trend of the major manufacturers producing this kind of commodity; The withdrawal form and price range of each brand commodity; Consumers' preferred brand and price level, performance and design; The manner of acquisition services provided by major competitors and the level of customers' satisfaction; Gross margins and market prices of local distributors and retailers; [9] Relationship between local manufacturers and middlemen; The marketing type and expenditure used by the main competitors.

2.3. Survey on Negotiating Partner

After investigating and analyzing the negotiation environment, it is also indispensable to collect and analyze relevant information of the negotiating partner. The survey on the negotiating partner mainly includes the following aspects.

2.3.1. Survey on Legitimate Qualifications of Negotiating Partner

First of all, investigate the corporate capacity of negotiating partners to see whether the negotiating partners have their own organization, name and fixed business place and property, whether they have been registered and check which country they have registered in. During the investigation, the other party may be required to provide relevant documents and verify their authenticity. In particular, the nationality of the legal person of the other party needs to be confirmed in case of dispute. [10]

In addition to the legal status of the negotiating partner, the capital credit and performance capacity of the negotiating partner should also be reviewed. Since the person who comes to negotiations is usually the head of a department of the company, it is easy to have the problem of representation or signing qualification in the negotiations. Although anyone of an enterprise can represent the enterprise to negotiate, in term of law, only the chairman, general manager, etc. have the power to sign contracts. Therefore, when negotiating and signing a contract, the identity of the contracting parties should be paid attention to.

2.3.2. Survey on the Nature and Financial Position of the Negotiating Partner

From a legal perspective, the organization form of enterprise include individual business establishment, partnership business, limited liability company and company limited by shares. Due to different types of enterprises, their legal nature, operating management style and economic advantages and disadvantages are also different.

The individual business establishment and partnership business are not provided with legal persons. The investors

shoulder unlimited liability for the debts of the enterprise with all their property. [11] Such companies are numerous in the west, but mostly small and with limited funds. A limited liability company or company limited by shares has independent legal qualification and enjoys rights and obligations under the civil law and can sue in court and answer a lawsuit under the name of the company.

Most Chinese enterprises cooperate with foreign limited liability companies, and the establishment conditions of such companies in different countries are different, including the statutory minimum amount of subscription. Therefore, the capital condition of enterprises is also very different.

In the early stage of business negotiation, the basic information such as the nature of the company of the opposite party should be carefully reviewed to identify the reliability of the other party.

2.3.3. Survey on the Operating and Financial Status of the Negotiating Partner

Financial status refers to the overall evaluation of the capital and profit related to the enterprise's free capital, ability to pay, profitability, current status of fixed assets and degree of depreciation. [12]

Business status refers to the evaluation of the production and sales status of products and other related business aspects. The operating condition and financial condition of the enterprise are not exactly the same or even different. Even companies with large registered capital can go into debt or even bankruptcy because of mismanagement.

The survey of operating and financial conditions should be as comprehensive as possible. First, compare sales with profitability. Although some companies are doing well, their profitability is low because of high cost of their products. Besides, the turnover should be compared with the enterprise debt. If the profit rate is high but the debt is large, a huge amount of loan interest needs to be repaid. Furthermore, compare the state of depreciation of fixed assets with the level of profit. If the wear condition of fixed assets is serious and the funds for renewal and reconstruction are largely misappropriated despite of high level of profitability, the enterprise has a latent operating crisis. [13]

In general, the purpose of the survey on the operations and financial position of the negotiating partner is to analyse the availability of the total purchasing power for realistic payments and to decide whether to establish a long-term trading relationship or not as well as check the size of transactions.

2.3.4. Survey on the Commercial Credibility of the Negotiating Partner

Business reputation refers to the value formed due to the superior enterprise operation and management as well as the ability to obtain higher profit level in the same industry.

The factors influencing the formation of business reputation mainly include excellent commodity quality, good reputation, considerate service, powerful advertising, famous trademarks and brands, as well as consolidated monopoly power, etc.

3. Means of Background Investigation

3.1. Information Channels of Background Investigation

During the background information collection, due to the large amount of information required, including the negotiation environment, market information and information survey of the negotiating partner, it is difficult for negotiators to obtain the information through first-hand information or field visits. [14] Therefore, secondary information is often used for information analysis in preparation. If the reliability of data acquisition channels can be guaranteed, using second-hand information can not only save costs, but also get more authentic information.

The background investigation has the mainly following kinds of channels.

3.1.1. Government Releasing Data

Most governments publish domestic and international economic data and statistical yearbooks etc., covering macro and micro economic information. Macro information generally includes the population of the country, its trade with other countries and the production of world industrial and agricultural products. [15] Micro-economic information covers production and consumption in major industries, development prospects and the country's international trade situation. Various statistical information and reports can provide a large number of original data with detailed materials.

3.1.2. Service Organizations or Specialized Agencies

Various service organizations or specialized agencies, including banks, import and export companies, accounting firms, freight corporations, airlines, consulting companies and research firms, can provide relevant specialized information. [16] The information provided by such service organizations focuses on requirements of business practices, legislation or regulations, etc., as well as economic data of finance and trade. The information provided by service organizations is highly targeted, reliable and economical.

3.1.3. Various Conferences

Information can be obtained by attending trade fairs, exhibitions, purchasing meetings and seminars of economic organizations. The characteristic of this kind of channel is the frontier information provided and great value of information.

3.1.4. Online Services

With the help of electronic information service system, information search can be completed quickly, such as information of the company, product and market and others. Information provided by online service is diversified and detailed, but needs to be screened and judged by information collectors.

3.1.5. Information Person

The person that has relevant information channel can also serve as information person, include the business affairs agent of the company.

3.2. Methods of Background Investigation

3.2.1. Interview

Investigators usually directly face the interviewees and obtain the target information through questions and answers. Interviews can be conducted individually to individual or by convening more people for discussion. The interview outline should be prepared before the interview, and topics and questions should be designed according to the target information. [17] During the interview, use skills to ask appropriate questions, accurately capture information and collect relevant information, and respond appropriately. Record in time during the interview, in the form of audio recording or video recording, and analyze after the interview. The characteristic of interview lies in the targeted selection of interviewees and high matching degree between the information obtained and the target needed.

3.2.2. Questionnaire

When designing a questionnaire, the scientific nature and pertinence of the questionnaire design need to be considered. A questionnaire needs to reflect the actual population, its representativeness and real needs, and is conducive to the realization of investigators' dominant intention and convenient for subsequent analysis.[18]

A questionnaire needs to delineate the range of questions to be learned, and provides ideas through reading relevant industry studies or similar questionnaires. Put forward the key questions according to the preliminary preparation and set questions as well as the question number and the promotion method and then complete the follow-up statistical analysis.

3.2.3. Bibliographical Research

Bibliographical research is a research method to collect relevant literature or secondary data according to certain goals and tasks. [19] The bibliographical research method can be through newspapers, magazines, books, archives, statistical reports, videos and pictures, etc. This research can have a wide understanding of the situation and is more efficient, but the literature materials and information obtained are lagging behind the actual situation, and there is still a certain gap with the actual situation.

3.2.4. Observation

Observation method refers to the method that investigators come to the site with a clear purpose and collect information through observation. Participant observation can deeply understand the situation and experience the feelings of the observer through joint activities; Non-participant observation can be performed using a variety of instruments and tools. Such observation method also has its limitations, that is, the difficulty degree of on-site observation and the strong influence of subjective consciousness during observation.

3.2.5. Experiment

Experimental method is to conduct field experiments on the research content. [20] Many experimental methods are also common in business activities, such as commodity trial sale, trial purchase, etc.. Such surveys can reveal new

information that is not easily found in a static state.

3.3 Principles of Background Investigation

3.3.1. Reliability

The information collected should be authentic and reliable. Verified conclusions, audited data and confirmed facts should be selected. [21] Through various investigation methods, objective facts are reflected from different angles.

3.3.2. Comprehensiveness

The background information should be comprehensive and reflect the essence of things on the whole. In business activities, information like economic environment, market conditions, product sales and the situation of the negotiating partner, is complex and prone to differences in time and space. Therefore, the comprehensiveness of background investigation helps the accuracy of the information obtained.

3.3.3. Comparability

Comparability of survey data refers to the horizontal and vertical comparison of data. [22] In terms of horizontal comparison, surveyors collect multiple data on the same problem to draw a conclusion. In terms of longitudinal comparison, surveyors analyze the past, present and future development trend of information based on timeline.

3.3.4. Pertinence

The background investigation is a tedious and time-consuming job. The target information most closely related to the negotiation should be prioritized for investigation to improve work efficiency.

3.3.5. Chronicity

The background survey is not only a preparation for negotiations, but also a long-term task for businesses. In enterprise operation and management, it is necessary to establish a perfect information collection network and archive important information, which can provide a variety of decision-making basis for enterprise management and business negotiations. [23]

4. Conclusion

Contents of Background Survey, including Negotiation Environment Survey, Market Information Survey, and Survey on Negotiating Partner; Means of Background Investigation including Information Channels of Background Investigation, Methods of Background Investigation, Principles of Background Investigation are analysed in details in the paper. When the points mentioned in the paper considered abundantly, there will be enough and good preparation for a successful negotiation.

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Biography

Gao Yanhua, Male, born in July 1984, PHD in business administration, senior economist and associate professor in Xi'an Eurasia University.