

Negotiation during A Crisis: Possible Problems and Three Suggestions for SME Leaders

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Abstract: Negotiation skills are essential for everyone especially business leaders to agree on how to share a limited resource, create mutual benefit and avoid conflicts in crisis. In this recent coronavirus outbreak, the Chinese government is encouraging people to stay at home as much as possible, prohibiting any gathering activities, and forcing some businesses to close. Therefore, this paper will use data analysis, case study and investigation for a small garment processor enterprise to indicate the problem about capital chain rupture and loss of profit from macro to micro perspectives. From the second half of this paper, there are three suggestions including preparation, adjustment of emotions and some common tactics for SMEs to use in negotiation in crisis.

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1 Introduction

Negotiation is a dialogue between two or more people and parties to reach a beneficial outcome over an issue. Negotiation skills are essential for everyone especially business leaders to agree on how to share a limited resource, create mutual benefit and avoid conflicts in crisis.

In this recent coronavirus outbreak, the Chinese

government is encouraging people to stay at home as much as possible, prohibiting any gathering activities, and forcing some businesses to close. These actions prohibit the normal operation of some businesses. Also, the panic and pessimism caused by the crisis will further reduce consumption, which will definitely have enormous negative impacts on the whole economy.

These situations are more severe for SMEs (small medium enterprise), who are frequently cash weak and have low liquidity of capital. This means that they run out of cash quickly. Moreover, they are usually run by a single leader who is very busy and may not develop his negotiation skills. Therefore, some SMEs are on the verge of bankruptcy, and may face the problems of negotiation in transformation of company type, cooperation with other companies, and layoff in the crisis. According to the Chinese national bureau of statistic, during this crisis of coronavirus, the revenue of catering industry has decreased by 43.1%. In the business, 80% of those orders were done through “contactless delivery”, which refers to placing goods in designated places, such as front door of the estate, so as to ensure the safety of users and riders in the food receiving process by reducing face-to-face contact. It was launched by Meituan, a famous online food delivery platform in China. These data can directly show that this outbreak deeply influenced SMEs in catering industry and most of them began to transform from only entity to run on the Internet.

On the other hand, the SSE SME COMPOSITE sharply fell by 17.37% from 25 February to 23 March.

We can see investors reduce investment to the business and this would make the SMEs' financial status more difficult.

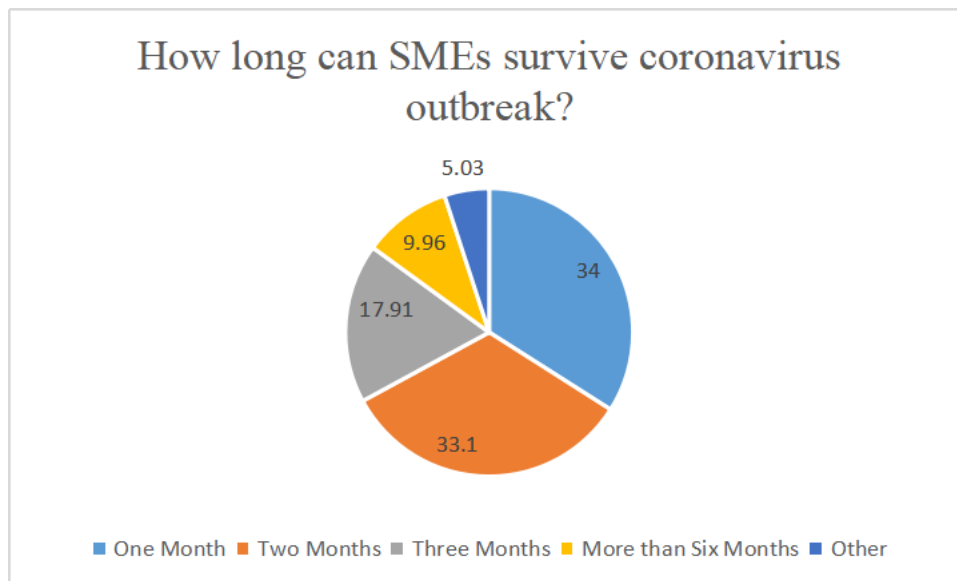
As a result, the owners of SMEs need to negotiate with their employees, customers, partners and other any other stakeholders. However, recent studies about negotiation are general, most of them do not focus on a specific group of people or an urgent situation in crisis. Additionally, there are several factors in this specific coronavirus crisis that influence the process of negotiation, resulting in less practicability of the general negotiation theories.

Therefore, this paper will use data analysis, case study and investigation for a small garment processor enterprise to indicate the problem about capital chain rupture and loss of profit from macro to micro perspectives. From the second half of this paper, there are three suggestions including preparation, adjustment of emotions and some common tactics for SMEs to use in negotiation in crisis.

2 Problems

The first problem that SMEs face is the capital

Diagram 1:



(data from: professor Wuxiang Zhu's research in Tsinghua university)

chain rupture in the crisis. To limit the spreading of coronavirus, many regions in China have adopted measures like closing train station to restrain the mobility of population. As a result, large amount of labors is trapped in different cities and can't go back to work. The transportation and production of raw materials are also delayed, so some enterprises at the

first and second stages of production have to breach the contract and delay the supply of raw materials and products. Moreover, 80% SMEs are forced to stop operating during the crisis to avoid gathering of people and spreading of virus. This also means that 80% of SMEs will lose their income from operating as long as the outbreak of virus continue. However, the money needed to maintain the business like the wage and rent does not fall, resulting in shortage of capital for most of the SMEs, which generally have small amount of capital compare to large enterprise. Eventually, capital chain rupture will lead to bankruptcy because SMEs cannot afford for the fixed cost. According to a study of Wuxiang Zhu, a professor at Tsinghua University, 34.00% of SMEs can only survive for one month under zero income condition in the virus crisis in China, 33.10% of the SMEs can survive for two months, and 17.91% of the SMEs can survive for three months. Surprisingly, only 9.96% of SMEs can sustain for more than 6 months in the outbreak of coronavirus. Overall, capital chain rupture is an urgent problem for majority of the SMEs in China, and the SMEs have to take actions to survive in the crisis.

To examine the problem, we investigate a small garment processor enterprise named DingQiu Clothing co. LTD, and study the data relating to its cost, number of orders and sales revenue. One of the problems is fixed labor cost. According to the policy introduced by the Social Security Bureau on March, the employers must pay for their employees the minimum wage which

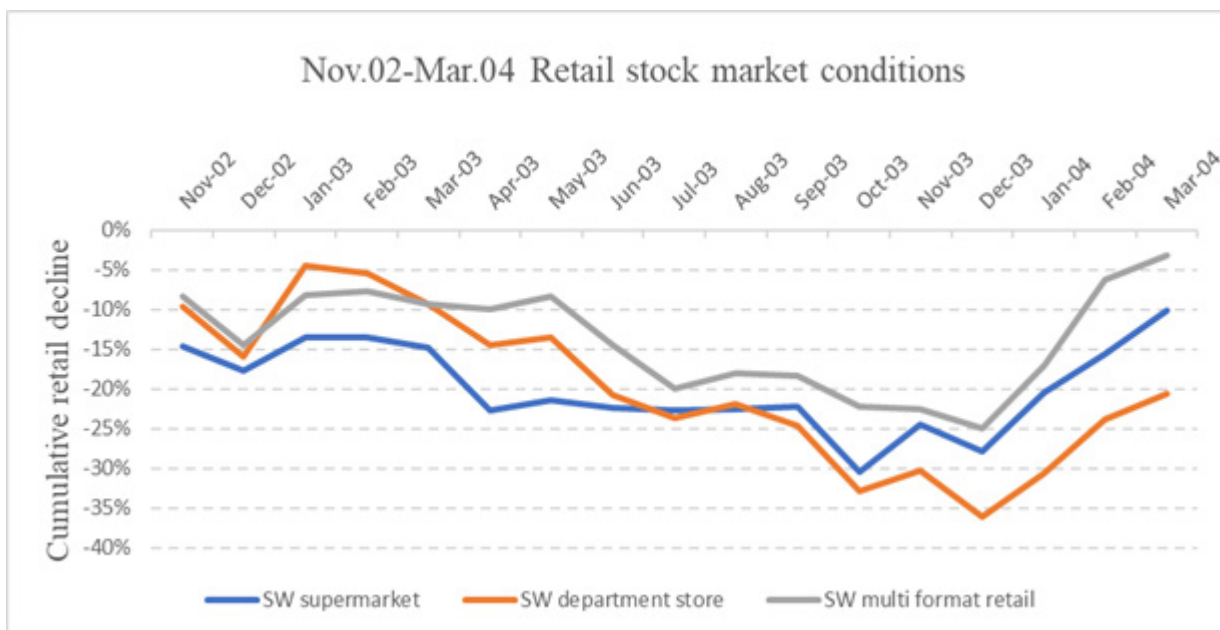
is 2020 RMB. Therefore, during the novel coronavirus, the 300 employees in the company can still get a wage allowance even without working. Although the company has few order forms and sale revenues in the crisis, it still has to pay about 600,000 RMB for labor cost. The second problem is reduction in number of orders. Many countries restrict their imports and reduce number of flights from China, so the delivery of products become more difficult and have to be delayed. For this company, its international clients decide to pay for the order five months later, which means that the company can not get the cash immediately. Moreover, there is a risk that the client may cancel this order because the change in demand. As a result, the product of this order produced by this garment processor will become their inventory that just can not be sold immediately and exchange for cash.

Moreover, we also study the impacts of the coronavirus on a broader perspective--the whole Chinese economy. During this period, people cannot go outside. Therefore, some policies compel most of the physical stores to close during this period. And this action does influence those physical stores since they do not have profits. And thus, there is a large impact on the whole real economy. We can see this from the similar SARS virus outbreak, started on November 2002 in China and finished on August 2003, which also has negative effects on the economy. The diagram 2 shows the situation of retail in physical stores during the SARS period from November 2002 to August

2003, and recovery period from September 2003 to March 2004. During the virus period, the total trend is declining and has a drastic decrease in April 2003 and October 2003, which is the time that the virus became severest. During the first four-month discovery, the percentage of retail still continued decreasing because the stocks are during a transitional period. Therefore, according to the reference of the SARS, we can find that the virus indeed influences the retailers which are physical stores. Similarly, the coronavirus also has an impact on the retails, especially on SME. The diagram 3 presents retail sales of consumer goods that grew year on year. The percentage of retail sales in 2019 is steady, while the percentage of retail sales in January and February in 2020 dramatically decreased. In conclusion, the coronavirus influences the retails, especially physical stores and the SME leaders face a large crisis because of less or even no profits.

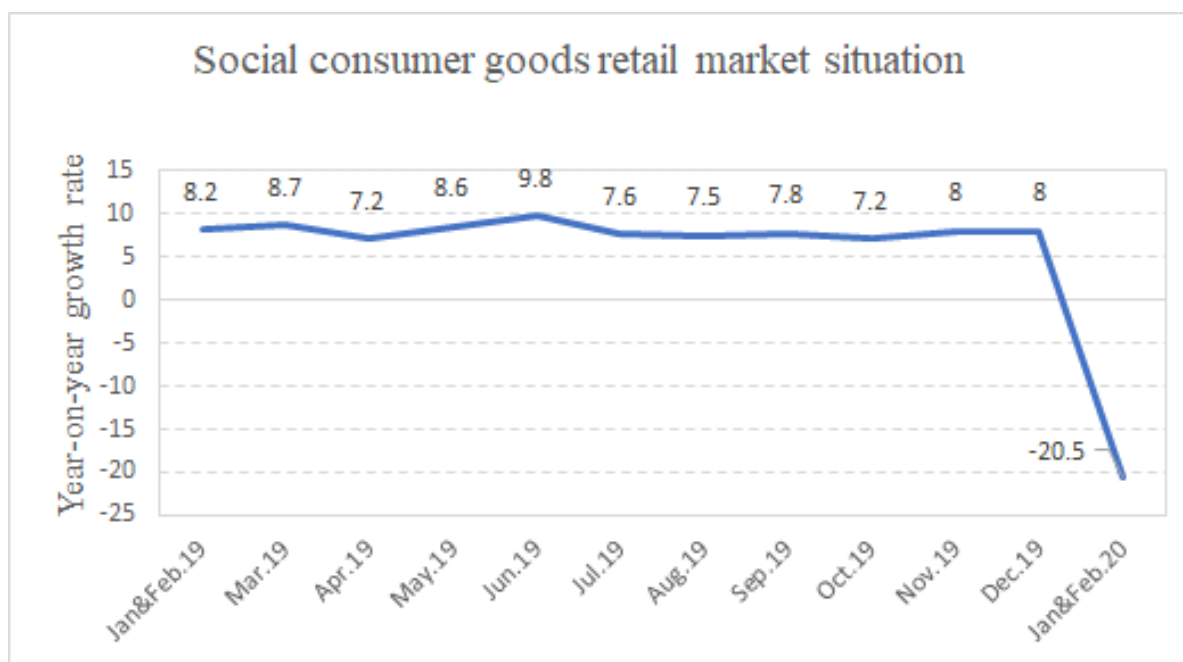
The problems that SMEs will encounter will not limit to capital china rupture and lack of profits, and there are more unexpected challenges for them. Therefore, it is crucial for SMEs to adopt some changes to solve the problems, and this is where negotiation takes place. For example, labor cost is usually the biggest cost in a business, so many SMEs will decide to cut down their labor cost by reducing the number of working forces. In this circumstance, owners of SME may have labor contract renegotiation and collective bargaining with representatives from trade union. Crisis negotiations are usually one-time, and every parties will want to

Diagram 2:



(data from: wind)

Diagram 3:



(data from: Chinese National Bureau of Statistics)

maximize their own interests. It is also conducted under stressful conditions because of the impact of crisis, so there may be some irrational and unpredictable human behaviors. These all make crisis negotiation to be more difficult to manage compare to conventional negotiations. However, there are still some suggestions that may be helpful for owners of SMEs, and prepare them better for the crisis negotiations.

3 Suggestions

3.1 Get really ready

Under this situation of high- impact crisis, every enterprise would have some changes. For SMEs, orders and revenues must have been decreased because of the problems mentioned before; For some strong Internet enterprises, the influence might be smaller because of their different running mode and hoping symbiosis that other industries want.

It's a super challenge for SMEs to negotiate at a disadvantage, so the first important thing is to deeply know every party before the negotiation. According to the Art of War by Sun Tzu, the most important and most famous military treatise in Asia for the last two thousand year, knowing the enemy and knowing yourself enable you to fight a hundred battles with no danger of defeat. This also can be used in negotiation for two ways:

Firstly, find enough information about the change in

bargaining power before the negotiation. Because of the sudden change, enterprises have different status on the negotiation table. For instance, before this outbreak of coronavirus, internet industry always asks many entities to join in them and ask for sponsor. But during this crisis, while many entities have no idea about how to survive except transit into running on the platform built by internet companies. In this occasion, entity has less bargaining power. For getting a satisfactory result, try the best to find the data which can show our own power, advantages and shortages, and the other parties' weakness. It will be a good tool to raise the SMES' negotiators' confidence, and find out breakthrough for defeating, such as lower labor cost.

Secondly, observe carefully and listen actively. Knowing a little about psychology is important. Negotiators can use details collected by looking around the people who you are negotiating with and the surroundings to know opposite side's personality, negotiated styles and even the mood. American psychologist Dr Peter Rolfe said a person's preference for clothing colors and designs, often can dope out the person's psychology." When SME leaders meet the opposite side, look at their dressing styles, expression on the face and then, speculate.

3.2 Be rational

People tend to be emotional, during this difficult period. The sudden change of economy would bring a large pressure to company leaders, especially the

SME leaders. Cognitive bias may appear during the negotiation. For example, Anchoring, which is the tendency to rely too heavily, or “anchor”, on one trait or piece of information when people make decisions (usually the first piece of information acquired on that subject). They may too focus on one benefit and ignore the cost. Therefore, when SME leaders negotiate with others, they would be irrational and afraid, such as too early or too much concession which would lead to the failure of negotiation. If not dealing with their emotions in right ways, SME leaders would probably fail to achieve their goals.

In order to make rational decision and successful negotiation, SME leaders can use the following ways to deal with strong emotions:

Firstly, take a break to keep calm. Negotiators can stop the negotiation, drink a cup of coffee, and take a few deep breaths. This solution can help them keep calm by themselves and then forget their bad emotion to start with rational mind and focus on the main purpose.

Secondly, invite the third party to participate in your negotiation. Negotiators must make sure that the third party’s interest will not be affected by the result of the negotiation. So that the third party can be rational and just to help achieving consensus and fairest results in the negotiation. In this case, the SME leaders can ignore the negative emotion in negotiation, but only focus on the goal and make rational decisions.

In conclusion, it is very common for SME leaders to be emotional, especially during the special period. SME leaders can use two solutions mentioned to keep rational. One is to adjust by themselves. The other one is to ask another person to help to keep calm. In these two ways, SME leaders would make more rational decisions and meet more interests.

3.3 negotiation tactics

In crisis negotiation, some effective negotiation tactics can help negotiators to pursue the biggest benefit.

Firstly, make a compromise can help SME to get more benefits in the negotiation. The first step is to understand the purpose of the other part. And it is important to remember that the resources SME can use to make compromises is limited, so they could not make compromise again and again. So does another part. So, the arrangement of the demand of another part need to be thought about before decide to make compromise. The opportunity of make compromise is also very important. The opportunity of making compromise depend to the situation when negotiating. But the

negotiator cannot choose the opportunity according to their character or their prejudice. Compromise can be used when the other part wants to go away. SMEs can compromise in one side to exchange for another part in the other side. This kind of compromise can also be used is a horizontal negotiation because many problems are talked about in this kind of negotiation. And it is easier for SMEs to get more benefits. Another way of compromise is promise to give the other part more benefit in the future, so they can make the other part also make a compromise to give them benefit in the near future which can help SME can pass the hard time.

Secondly, sometimes the other part of negotiation will try to use hard-bargaining tactics to get to their purpose. For example, the other part will give you an extreme demand but then say that they can make a small and slowly compromise. This is one of the most common way of hard-bargaining tactics and it can make both part of negotiation cannot reach an agreement and drag out the negotiation until SMEs accept the demand. So, SMEs can prepare a best alternative to a negotiation agreement and know their bottle line well.

4 Conclusions

Overall, crisis negotiation is of paramount importance for SMEs and its results may directly determine whether they can survive or not during the coronavirus outbreak crisis with less profits and possible problem of capital chain rupture. Do sufficient preparation, ignore negative emotion and effective use of tactics may help negotiators to better achieve their goals and maximize their benefits in the crisis negotiation.

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