
The difference between Chinese and Western negotiations

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Introduction

Marketing has been defined in a number of ways, but invariably effective marketing is associated with the need to link producers and consumers (McCarthy and Perreault, 1993) or the need to facilitate exchanges (Kotler and Chandler, 1990; Lamb *et al.*, 1994; Zikmund and D'Amico, 1989). Bennet (1988) on behalf of the American Marketing Association defines marketing as "the process of planning and executing the conception, pricing, promotion, and distribution of ideas and goods, and services to create exchanges that satisfy individual and organisational objectives". Thus marketing is largely, but not solely, about negotiating and considering how to influence and carry out negotiations in order to facilitate exchange.

It has a wider context of highlighting the market, then segmenting it and identifying target market segments. It is concerned with understanding buyer behaviour within segments and choosing the appropriate strategies which involve how to position the product in the customer's mind. It is also about retaining customers through offering quality, reliability and service and ensuring the whole system hangs together by developing a feedback and control system. The marketing effort in the wider context thus sophisticates the exchange process.

This is highlighted by the fact that at some point, no matter how simple or complex the marketing system, negotiations between buyers and sellers take place. When buying decisions are sizeable or complex, and especially when overseas negotiations are involved, negotiation techniques can play a major role in the successful conclusion of the business deal. It is unrealistic to assume that one negotiation style fits all cultures.

The development of the paper

The paper commences by highlighting the importance of the Chinese ethnic market to Western business, and identifies the major cultural differences between Chinese and Westerners. This is followed by a consideration as to how culture impacts on preferred Western and Chinese style negotiations. The

debate includes the need to defer to seniority which can often slow down the finalisation of the business deal as Chinese negotiators need to seek the authority of their immediate bosses. Three real life examples are used to illustrate the importance of *Guanxi*, the expectation of contract re-negotiation and the problem of dealing with Chinese bureaucracy.

Chinese-based economies may mean big business

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One of the most rapidly developing economies, and a giant by any measure, is the Peoples Republic of China (PRC). Approximately one-fifth of the world's consumers live there, the country is currently undertaking vast infrastructure projects and there is a continued commitment to market-based reform. McKinsey estimates that by the year 2000 there are likely to be 200 million fairly affluent Chinese by world standards (Leung *et al.*, 1995). Moreover, the Tiger economies, largely of Chinese ethnicity, portrayed in the *Asia Pacific Profiles* prepared by the Asia Pacific Economic Group (1994), also experience rapid growth, but are already enjoying a comparatively high standard of living based on global standards. These factors have contributed to the increasing attention from Western business. Imports to China, Hong Kong, Singapore and Taiwan have exceeded US\$336 billion in 1993.

Cultural differences add to the challenge

Its size aside, the PRC appears to be one of the most challenging environments in which to conduct negotiations, a factor shared with other Chinese-based economies such as Hong Kong, Singapore and Taiwan. China is a high context culture in which people are deeply involved with others and information is widely shared (Hall, 1976). The cultural variable has been explained by *Guanxi*, yet *Guanxi* would appear to be a dependent variable derived from the cultural and pragmatic necessities of Chinese society. Notable research to explain cultural differences between countries was carried out by Hofstede (1991) who identified four dimensions of culture:

- (1) power distance (measured from small to large);
- (2) collectivism versus individualism;
- (3) femininity versus masculinity;
- (4) uncertainty avoidance (from weak to strong).

Later the author added a fifth dimension: long-term orientation in life versus a short-term orientation. In the empirical work Hofstede (1991) did not publish measurements for the PRC except for "long-term orientation", but it is possible to utilise the author's work to make comparisons between Western-based cultures, such as the USA, Great Britain and Australia, to Chinese cultures such as Hong Kong, Singapore and Taiwan. Hofstede's (1991) work for the Chinese and Western countries are summarised in Table I.

In terms of power distance Singapore scored 74 on the power distance index, Hong Kong 68 and Taiwan 58 compared to the lower scores of USA 40,

Dimension	Power distance	Individualism	Masculinity	Uncertainty avoidance	Long-term orientation ^a
Hong Kong	68	25	57	29	96
Taiwan	58	20	45	69	87
Singapore	74	17	48	8	48
Average	67	21	50	35	77
USA	40	91	62	46	29
Australia	36	90	61	51	31
Great Britain	35	89	66	35	25
Average	37	90	63	44	28

Table I.
Hofstede's work
for Chinese and
Western countries

Note:
^aBased on a Chinese value survey rather than the IBM study and showed a long-term orientation index for China of 118
Source: Hofstede (1991)

Australia 36 and Great Britain 35. Power distance is a measure of the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally. It can be seen from the table that the Western economies generate a lower average result compared to the Chinese economies. This indicates that people in the Chinese countries accept the fact that power is unevenly distributed in society and business.

On the individualism index, Hong Kong scored 25, Singapore 20 and Taiwan 17, while the USA scored 91, Australia 90 and Great Britain 89. Individualism stands for a society in which the ties between individuals are loose. It is obvious from the table that Chinese countries record much lower average scores compared to Western countries which show relatively high scores. This indicates that human ties leading to group, rather than individual, effort in business are more common in the Chinese based countries than in Western countries.

In terms of masculinity Great Britain scored 66, the USA 62 and Australia 61, while Hong Kong scored 57, Singapore 48 and Taiwan 45. This is a measure of how distinct gender roles are in society, with higher results equating to higher masculinity scores. The differences between the Chinese and Western countries is not as marked as in the other dimensions. This may be due to the rapid economic growth in these countries and the fact that management style has been subjected to Western influences and because in Chinese society as well as Western society there are opportunities for nurturing, as well as assertive roles.

The uncertainty avoidance index, a measure of the extent to which members of a culture feel threatened by uncertain and unknown situations, yielded results of 69 for Taiwan, 29 for Hong Kong and 8 for Singapore, while Australia's score was 51, the USA's 46 and Great Britain's 35. The uncertainty avoidance dimension is interesting in that the indices of Hong Kong and

Singapore are substantially lower compared to those of the Western countries, whereas the index of Taiwan is higher than their counterparts in the West. One explanation may be the Taiwanese' fear of a military attack from mainland China which generally creates anxiety within Taiwanese society. Within the Chinese country group, interestingly, the score for Singapore is extremely low compared to Hong Kong. In fact, Singapore's situation is different from Hong Kong in that it is highly regulated whereas in Hong Kong, once a British colony, returned to China in 1997, people experience some uncertainty. Given these situations, people in Singapore are likely to have more sense of belonging and therefore the score in this dimension is extremely low. The Chinese in Hong Kong, due to political uncertainty, are more practically oriented. Coupled with the high economic growth mentioned above, people in Hong Kong are highly motivated to generate wealth. Their wealth, together with their comparatively high level of English skill in Southeast Asia, increases their mobility in migration to other countries. The feeling of uncertainty is, therefore, lower than Taiwan's.

With regard to long-term orientation, the Western countries reflect a much lower average score than the Chinese countries. The "long-term" orientation reflects the way in which Chinese cultures incorporate, in their values, the teachings of Confucius and in particular the importance of perseverance and thrift. Hong Kong, Taiwan and Singapore follow more closely a pragmatic set of rules than their Western counterparts because they all obtained higher scores in the Long Term Orientation index. Hofstede (1991) argued that the emergence of market conditions and political support together with these rules (or Confucian dynamism) initiate economic success in these Chinese countries. Within the Chinese set of countries, it is not surprising to see that Singapore had a relatively lower score than Hong Kong and Taiwan because it is a more restrictive country and hence the "Confucian dynamism" is hindered.

Clearly the most significant Sino-Western cultural differences occur in terms of individualism, power distance and long-term orientation. The three dimensions are likely to impact on the way each side elects to conduct their negotiations. The Chinese countries tend to be group-based economies and have a clearer hierarchical structure in their decision process whereas their Western counterparts are more individualistic and loosely organised. The Chinese too are patient but persistent in their pursuits and willing to renegotiate contracts to achieve their long-term objectives. These characteristics pose a challenge to Western negotiations as they need to understand the Chinese group dynamics, their hierarchical structures and their long-term orientation all of which are a clue to their motives in business negotiations. The fact that Chinese negotiators prefer to consult and act collectively may explain why *Guanxi* is a phenomenon found in Chinese countries.

Given the importance of the Chinese based economies, and accepting cultural differences which may impact on Chinese and Western type negotiations, the authors consider it imperative to explore the contrasting styles of Sino-Western negotiation. Cross cultural negotiators need to understand the fundamentals of

doing business in the PRC. In contemplating the wider aspects of the way the Chinese enter into negotiations, *Guanxi* is explored as part of this process. *Guanxi* is driven by deep rooted cultural beliefs stemming from the teachings of Confucius, and from the pragmatic demands of living in fairly self-supporting communities. Such communities neither expected nor received much in the way of support from Government, but relied on trust and reciprocal behaviour between the members of a tight-knit community. *Guanxi* is deemed very important because it has been enshrined in the way that the Chinese have chosen to do business since the times of Confucius, and is a durable characteristic of the way the Chinese choose to do business in modern times. The authors investigate what has contributed to the development of *Guanxi* and why it is still so important.

The authors accept the definition of "negotiation" by Rubin and Carter (1990), "negotiation is the process of reviewing, planning and analysing used by two parties to reach acceptable agreement or compromise". It is also assumed that it is a process in which both parties adjust their expectations during the resolution of conflict; it implies that one side does not have absolute power over the other side. The authors believe that Chinese culture influences the way negotiations proceed and are structured, which makes dealing with the Chinese unique.

The basis for negotiations in the West

The hard and soft approaches

Two main negotiation approaches are recognised in the West, one the authors term "hard line" and the other is the "soft line" method.

The hard line is described by Fisher and Ury (1986) who consider that negotiators take up an initial position and then make concessions until a compromise is reached. It is argued that their initial position forces negotiators on both sides to develop their egos which drive them to reconcile future actions with established positions in order to arrive at the pre-determined company targets.

The soft line approach as depicted by Vickers (1970) argues that the concept of "relationship maintenance" can provide a richer and more realistic approach. Negotiators on both sides, under this system, can focus on mutual interests but not on pre-determined positions and achieve joint profits based on some objective standard. The approach is made up of four key features:

- (1) *People*. Separate the people from the problem.
- (2) *Interests*. Focus on interests, not positions.
- (3) *Options*. Generate a variety of possibilities before deciding what to do.
- (4) *Criteria*. Insist that the result be based on some objective standard.

This method assumes that negotiators on both sides provide the means to carry out the company's business objectives which fulfil common interests to both parties in the negotiations.

Cultural aspects have a lower profile in Western negotiations than in Chinese negotiations

Writers such as Ford (1980) and Grönroos (1989; 1990; 1994) encourage Western firms to consider relationships as an important consideration in negotiations. McKenna (1995) invites firms to use “current and emerging technologies ... to start a real-time dialogue with their customers to provide interactive services. Technology-facilitated conversation and service will allow companies to cut through the market chaos and establish binding relationships with their customers”. These ideas are still in their infancy; it is more common to concentrate on the transaction being a contractual arrangement rather than part of an ongoing relationship. Indeed, research has identified that Australian firms consider strategic alliances, a form of enduring relationship, the last strategic resort (Buttery and Buttery, 1994).

Both the “hard” and “soft” approaches do not explicitly address the cultural aspects which partly drive the negotiators’ perceptions of one another. Both methods lead on to a definitive contract being drawn up which assumes both sides will adhere to. Moreover, the contract is supposed to have some validity in law. The crux of the transactional negotiation stance, according to Maddux (1988), is an exchange process for a party to obtain resources or benefits from another party when these resources are under the “sellers” control. In a successful negotiation, a negotiator obtains something of greater value in exchange for something on which he or she places a lower relative value. Maddux (1988) developed a six-step negotiation process:

- (1) Getting to know one another.
- (2) Statement of goals and objectives.
- (3) Starting the process.
- (4) Expressions of disagreement and conflict is not a test of power but an opportunity to reveal what people need.
- (5) Reassessment and compromise.
- (6) Agreement in principle or settlement.

Negotiations are inter-company activities

Maddux (1988) and MacDougal and Malek (1983) mainly perceive that negotiations are inter-company activities. They describe human beings as economic mechanisms when they engage in exchange behaviour through the negotiating process. The psychological aspect of negotiations is to a large extent either missed at worst, or assumed to be inherent in the process at best. Greenhalgh and Gilkey (1986) do, however, recognise the psychological factors which affect the complexity of the process, they see that the qualities of body, mind and character make people individuals and can influence their perceptions and expectations which in turn drive their negotiating behaviours and influence the outcome of such negotiations.

There is also a recognition that the negotiator's role is constrained by factors such as the communication context within his or her culture, especially in high context culture situations. Johanson and Vahne (1977) consider a similar point in terms of "psychic distance" which is defined as "the sum of factors preventing the flow of information from and to the market, for example differences in language, education, business practices, culture, industrial development, etc." Hall (1976) defines high context cultures as those in which information is widely shared and communication with deep meaning transmitted freely. Osland (1990) expresses the view that most Western countries are low context in nature and so are not likely to be constrained so much by cultural considerations. This may be due to the existence of individualism in these countries and the strong mobility from one place to another. It is not altogether surprising that these traits exist because Yang (1984), in comparing US, Japanese and Taiwanese firms, suggests that Western business culture reflects to a large extent the Protestant work ethic with its emphasis on individual achievement and competition between individuals and between firms to gain market share and eventually exert power within market sectors. Society recognises the success of individuals, and business executives are expected to demonstrate an ethos of success based on their own performance, even when a team achieves something it is usually ascribed to the vision of one individual.

Rinehart and Page Jr (1992) consider that negotiation is a dyadic process between buyers and sellers and develop a transaction negotiation model which consists of four basic elements:

- (1) relationships between the two parties;
- (2) personal influence exerted by each party;
- (3) their concession behaviour; and
- (4) the outcome from the negotiation.

They argue that the outcome of the negotiation relies on both parties being able to compare their own perception of these concepts with those of the other party. Depending on how they are perceived leads to either adopting an integrative or distributive strategy. An integrative strategy calls for open information exchange whilst the distributive strategy looks for opportunities for individual gain.

Making a sale not necessarily building a relationship

Many negotiations in business lead to either the sale of a product, process or service, and a part of the current marketing literature describes the tangible, intangible and perceived benefits which may lead to achieving a sale. The emphasis is on the outcome of making a sale not on building a relationship, although again, there is a discernible movement towards building a longer term relationship with customers, giving rise to the development of relationship marketing. Two streams of research which are currently emphasising

relationships rather than transactions are the Nordic School which looks at marketing from a service perspective and the IMP Group influenced by Hakansson (1982) which takes a network and interaction approach to understanding industrial businesses. The emphasis on relationships is likely to lead proponents of these schools to move more towards Eastern methods of negotiation and on empathy with concepts like *Guanxi*. The classic and predominant model which purports to identify the characteristics of how buyers reach decisions, is of the kind visualised by Robinson *et al.* (1967). In the model there are three “buy classes” and eight “buy phases”:

- (1) Anticipation or recognition of a problem (need) and a general solution.
- (2) Determination of characteristics and quantity of needed item.
- (3) Description of characteristics and quantity of needed item.
- (4) Search for and qualification of potential sources.
- (5) Acquisition and analysis of proposals.
- (6) Evaluation of proposals and selection of supplier(s).
- (7) Selection of an order routine.
- (8) Performance feedback and evaluation.

The buy classes are:

- (1) new task;
- (2) modified rebuy;
- (3) straight rebuy.

In the case of a new task it is necessary to go through all the “buy phases”, that is to move from a state of unawareness to actually buying the product or service. In the other cases, as they are rebuy situations, some of the early “buy phases” may be omitted, reflecting past learning.

What this means is that negotiations in the West, from the buyer’s point of view, tend to follow a process which depends on whether it is a new task, modified rebuy or straight rebuy situation, and which selectively moves from anticipation of a problem to performance feedback and evaluation. From a seller’s point of view they may try to provide input to each of the “buy phases” to ensure that they stand a good chance of a successful outcome. One can see the emphasis is on a process rather than the understanding of culture, or the building of trust and a long-standing relationship. The development of the Nordic School and the IMP approach will ensure more emphasis on culture based relationships in the future. The writers recognise the positive value of those developments towards improving future negotiation between teams of negotiators from Western and Eastern countries.

The outcome of the current form of negotiations generally lead first, to an agreement in principle, which invariably is followed by a contract being signed in situations where some aspect of the negotiation requires something to be

delivered or completed in the future. The contract is viewed as binding on both parties and if the contract is broken it is likely to lead to court proceedings.

Chinese negotiating behaviour

Guanxi

There are benefits from developing relationships in China as a means to enter into trade and investment. This is why the concept of *Guanxi* is so important in China; it boils down to having access to the needed influence to make things happen. It is all about storing up political capital and building relationships with a network of people through which influence is brokered. In terms of foreigners doing business in China it means having, as part of your *Guanxi* network, an influential person in an organisation or more often in a Government position. Nothing much happens in China other than through this *Guanxi* network, and certainly little is sustainable without it.

To build and sustain a position within a *Guanxi* network requires some knowledge of “*renqing*” which is about the exchange of favours and “*mianzi*” which is about the giving of face or enhancing of someone’s social status.

It is important to understand, according to Pye (1986), that *Guanxi* is not about getting through one negotiation. Instead, it is about building up a life-long relationship. It is not about immediately returning one favour with another. If necessary *Guanxi* may involve the constant giving without obtaining a favour in return or vice versa, provided there is enough trust in the relationship to know that when a reasonable favour is asked it is given.

The paper introduced *Guanxi* as a dependent variable or state which arises from the development of certain independent variables. It is a concept not easily understood by Westerners about Chinese culture. *Guanxi* represents in fact a system that was essential to the survival and prosperity of groups of people within the Chinese society who did not expect anything or did not get anything from the political system. As an essential survival system it is unlikely to evaporate over night, thus Western business people must gain a thorough understanding of the concept.

Why Guanxi networks are today important in China

The Chinese economy and society is a large and complex machine to manage. To give some indication of the size, the PRC has a population of around 1.2 billion people compared with say Australia with about 18 million population. Naturally one cannot develop social systems from a national character, holding the whole vast machine together is just about enough work for the Government at national level. In the past there have been shortages of everyday necessities. As a result, the Chinese have developed *Guanxi* ties to obtain these goods and *Guanxi* ties, too, have helped to overcome the hitherto primitive communication system and bureaucratic maze, in essence the Chinese people have relied on *Guanxi* to act as their “currency” to perform practical roles. According to Pye (1986), Tai (1988) and Osland (1990) the right *Guanxi* can bring cheap and reliable supplies, tax concessions, approval to sell goods domestically or for

export, and provide for assistance when problems arise. *Guanxi* helps to maintain harmony in the Chinese system of doing things and this is where it ties in closely with Confucian thought, even though *Guanxi* is not a word which was used by Confucius.

The idea of *Guanxi*, *renqing* and *mianzi* along with a clear indication why the system in China is strictly hierarchical are reflected in the work of Confucius.

Before Confucius (551-479 BC), China was made up of many clans who operated quite independently and did not bring any focus or harmony to a discernible identity which was China. Confucius, in his work, was directly addressing this problem by devising a system which was harmonious and integrated through a hierarchical form which would underpin the future development and expansion of China.

The foundation of Confucian thought is harmony, hierarchy, development of moral potential and kinship. These four tenets of Confucian values drive three interpersonal norms:

- (1) basic communication patterns;
- (2) social obligation;
- (3) relationships amongst different life domains (Shenkar and Ronen, 1987).

This is as true of today's China as it has been since the time of Confucius.

Harmony and hierarchy

The principle of harmony implies aspirations toward conflict-free group based systems of social relations (Shenkar and Ronen, 1987). Confucius used the important terms of "*jen*" and "*lun*" to signify the ideal of mankind in society (Kam, 1993). The word "*jen*" means moral excellence in interpersonal relationships. "*Jen*" emphasises self-education and analysis. It advocates the relative importance of knowing others and the relative unimportance of being known (Lin, 1939). This would explain why the Chinese are so attentive to discern the interests and personalities of visiting negotiators, their offering and indeed the myriad questions which are considered frustrating by overseas visitors. It also resolves why Chinese negotiators are defensive about freely disseminating information about themselves.

"*Lun*" means the proper positioning of mankind within the social and political hierarchy (Lin, 1939). Generally there are five "*wu luns*" in a classical Confucian society. They represent the relationship between ruler and subject, father and son, husband and wife, elder brother and younger brother, friend and friend. A Confucian gentleman is a social man performing with perfection these five fundamental relationships (Deverge, 1986). The theory of Confucius is to create a harmonised society in which every person knows and stays in their proper position. The practice of paternalism is the highest ideal in the Chinese political system (Pye, 1992).

Doing business in China meant that those outside the recognised ranks and grades have been helplessly ineffectual. The only productive way into Chinese business circles is through someone who is already part of that hierarchical structure. It follows from previous discussion that business people operate in an environment which only includes a limited number of organisational entities. So Ford *et al.* (1986) conclude that the establishment and development of an inter-organisational relationship requires a "mutual orientation" among the firms in the circle. An organisation's interaction and exchange process with other firms in the network develops linkages of the resources and activities of one party with those of another.

Development of morale potential and kinship

Mianzi. *Mianzi* is the Chinese concept of giving "face". This translates into giving one's respect and recognising the status and moral reputation of the Chinese negotiator in society, indeed enhancing this status by whatever ways possible. It is important to protect one's "face" but it is perhaps even more important to give "face" to others. In short it involves a reciprocal relationship of respect and courtesy to and from your counterparts. To "give face" means to praise someone's reputation in a society. To get someone to "lose face" is to denounce status and reputation. It also indicates a loss of confidence and a lack of trust (Brunner and Wang, 1988). In confronting business situations, aggressive behaviour from either party can damage the face of the other party.

Renqing. Closely associated with the giving of "face" is the performing of favours and giving of gifts which in China is called "*renqing*". Thus a businessperson may make a donation to the Department of Transport for infrastructure provision, a professor could send books to a Chinese University, or an individual can participate in a public ceremonial function and present a flag of their country. Further the business person may lend his/her support to negotiations to introduce a Chinese official to representatives of another company which may be interested in negotiations with China (Brunner and Wang, 1988).

The lack of incentive systems in China affect the way negotiations are conducted

The lack of incentive systems in the PRC (Lee and Lo, 1988) implies that officials, particularly within a state-run organisation are risk avoiders. They are governed by the "Cardinal Principles" which are, according to Deverge (1986):

- (1) Those who do nothing make no mistakes. Foreigners must complete mountains of paper work and get everything correct before the Chinese negotiators will commit themselves.
- (2) Protect the bureaucracy. Although memos and ideas may be generated low down in an organisation, the foreign negotiators may expect a "long march" before it is approved throughout the bureaucracy.

If a contract is what is required by a foreign negotiator it is also important to realise that there are three distinct stages in the process according to Mente (1992):

- (1) The social aspect.
- (2) The signing of the contract.
- (3) The post-negotiation stage.

The social aspect is the building up of relationships, trust and understanding the cultural values of both teams of negotiators. Before the contract is signed there are usually two distinct stages: the technical phase which is the most drawn out and detailed and the commercial phase. These two phases may, from the Chinese side, be conducted by two separate negotiating teams. It should be noted that the signing of a contract does not signify the end of the negotiations but only the willingness of the Chinese to commit to the relationship. This means they may continue to negotiate even after the contract has been signed, after all the Chinese continuously emphasise that all agreements are based on friendship and goodwill, really making the final contracts unnecessary (Mente, 1992) and so the contract does not signal the last word on anything.

Practical illustrations of doing business with the Chinese

Some recent newspaper extracts demonstrate the ideas we have discussed. They illustrate the importance of *Guanxi*, how contracts are expected to be re-negotiated and the problem of Chinese bureaucracy.

An illustration of Guanxi

The Australian (1995 p. 33) ran the following headline "Hong Kong Telecom builds Chinese links", an extract of the article follows:

The British communications company Cable and Wireless has mapped out its ... A\$1876.4 million strategy to become a leading force in world telecommunications.

In a busy week, Cable and Wireless geared up efforts to end speculation that it is a takeover target and trotted out Mr Linus Cheung, its newest executive director and the man responsible for all its Chinese Strategy ... He can operate comfortably in both the Chinese and Western worlds and was hired to transform a traditional British company into a Chinese company in advance of the colony's (Hong Kong) becoming Chinese in 1997.

Mr Cheung has already taken a few bold steps in that direction. He recently hired Mr Lu Gang to head the company's China telecommunications Division. Mr Lu, the son of Mr Lu Ping, Peking's chief of Hong Kong Affairs, has cultivated valuable Chinese contacts. He claims a close relationship with Mr Wutji Chuan, the head of China's Ministry of Posts and Telecommunications and knows all the key players in the regional telecoms companies. Forging close personal links with Chinese officials is good for business ...

An illustration of the re-negotiation of contracts

The heading which appeared in the *South China Morning Post* on 12 January 1994 stated "China is re-negotiating foreign joint ventures" (Foo, 1994).

Major changes to the terms of Sino-foreign joint venture deals are being thrashed out following the recent unification of yuan exchange rates ... Mr Chan said the adoption of a

unified exchange rate of about 8.7 yuan to the US dollar had materially altered the contracts signed between foreign investors and mainland partners, but which were yet to be implemented ... But Mr Chan added that how the deals were negotiated really depended on the sincerity of both partners."

Illustration of the Chinese bureaucracy

The article appeared in the *South China Morning Post* of 19 October 1995, and read "Red tape delays \$38b in US deals" (Clayton, 1995). It stated that

Red tape in Beijing has stalled power generation deals worth about US\$55b ... signed during a highly publicised visit last year by US Commerce Secretary Ron Brown. In Hong Kong yesterday after his second trip China in 15 months, Mr Brown was frustrated by the lack of progress and said he had urged the Chinese Government to streamline its approval process. "I think there has been some embarrassment that the bureaucratic red tape has been hard to cut through" he said after a speech to the American Chamber of Commerce. "They are as anxious as we are to get these projects moving".

Quite clearly no matter how large or small the deal, *Guanxi* is important, red tape is ever present and contracts can be re-negotiated.

Model of business negotiation in China

The authors of the paper have identified very generally the way in which Westerners tend to negotiate. Western methods seem to follow a process culminating in the signing of a contract. It is a matter of fact operation but trade-offs are made between the purely technical excellence and benefit of a negotiation and knowledge and trust of the other negotiating firm possibly because of past dealings.

The writers are sure that technical considerations come into play in negotiations in the PRC. No doubt, the best possible deal is sought with the best possible technical terms on which to do business. However, there is an added dimension which foreign negotiators must take into account. It is the need to base negotiations on the format of Chinese culture which requires a knowledge of *Guanxi*, *renqing* and *mianzi* and an understanding of why negotiations could be slow. Foreigners should also understand that while the Chinese are willing to sign contracts, they do not see them as the end of the negotiations rather as the formal willingness to do business which necessitates further negotiations.

The findings prompted the writers to suggest a model which represents the process of doing business with the PRC, see Figure 1. This model integrates the marketing, psychological and economic approaches of the Western negotiators with the Sino-Western aspects of our experience in the West at doing business in China. It shows also the economic, technological, political, social and cultural environmental aspects of this process which are particular to the environments in which negotiations take place, and these are fully expanded in Buttery and Buttery (1990). In this regard it should be noted that these environmental impacts on the negotiation process are not just those which apply in China, but also in the foreign country which forms the other negotiating team. All in all therefore this makes for a very complex arena under which negotiations take place.

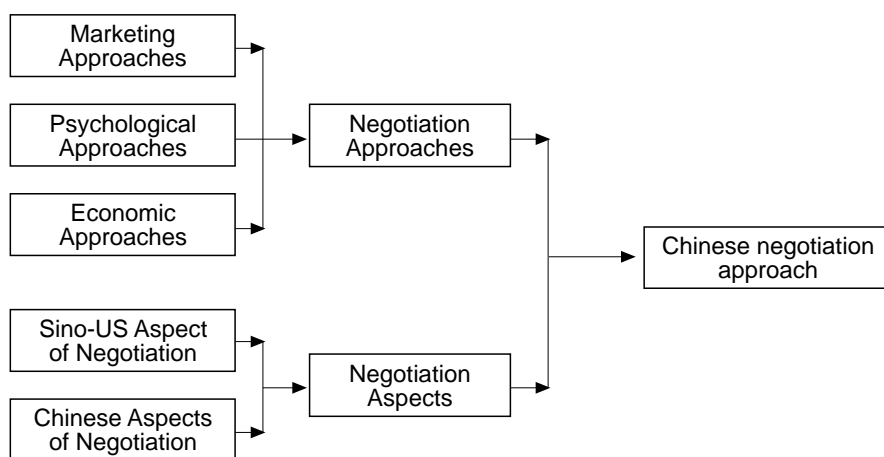


Figure 1.
Chinese negotiation approach

Summary and conclusion

The authors have suggested in this paper that there is currently a different approach to carrying out negotiations in most Western countries compared to China. In Western countries the process is seen as a business deal and is largely divorced from other aspects of society and from the negotiators' personal and social lives. Often the negotiations, although influenced by past experience, are largely technical processes with technical outcomes. It is easy under this model to describe the whole process as an economic exchange process. The paper refers to a developing school of scholars who are looking at marketing as being based on "relationships" rather than "transactions" and this will lead to a negotiation process more akin to the Chinese ideal than to the "transactions" school.

In China, relationships are currently much more important than transactions and they pay little store to formal contracts, falling back rather more on friendship and trust as the basis for doing business. This leads to a lengthy negotiation process which encompasses social as well as business parameters. In the case of China it would be misleading to see the negotiation process as a pure economic exchange process, rather it is more of a process of matching both the technical aspects of the product and service to the requirements of the buyer but simultaneously matching the friendship and trust generation aspects of doing business.

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