

# **THE CHINESE BUSINESS NEGOTIATION PROCESS: A SOCIO-CULTURAL ANALYSIS**

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**Chinese Business Negotiation Process: A Socio-Cultural Analysis**

China has been one of the most favourite markets for western firms for the last decade. However, doing business with China is difficult, mainly because negotiating with Chinese counterparts is quite complex and time consuming. This paper analyzes the negotiation process with China from a Socio-cultural perspective. A Swedish multinational, Ericsson, is followed for several years and its negotiation process for different Chinese projects in the telecommunication industry is studied in depth. Based on these cases and literature a model is developed and some normative conclusions are drawn. Finally, managerial implications, presented as five Ps: Priority, Patience, Price, Precision and People sum up the essence of Chinese business negotiation process.

## **INTRODUCTION**

The People's Republic of China (PRC) started to open up her economy to the rest of the world in 1978. Since then, Western business communities have been enthusiastic about this market of over one billion consumers. On average, China was visited by one high level Western business delegation every week throughout the 1980s. The Western interest in China decreased somewhat during a period following the Tiananmen Square incident in June 1989. But it rebounded and increased even more powerfully in the 1990s given indications of China's continuous moving toward a more market-oriented economy. In the USA, the rekindled interest in China also contributed to the decision made in 1994 by the Clinton Administration to extend the status of Most Favored Nation (MFN) to China. Sweden-China trade increased by 30 percent during the first half of 1995, the highest figure among the countries of the European Community. By 1996, more than 100 Swedish companies had established in the Chinese market. By the end of 1995, China had approved a total of 258,000 foreign-invested enterprises with contractual foreign investment of US\$ 395.7 billion and actual invested capital of US\$ 135.4 billion. China is already the largest recipient of foreign direct investment among developing countries and the second largest in the world next only to the USA. China's rank in world trade rose from 32nd in 1978 to 10th in the 1990s.

However, trading with China is difficult; negotiating with the Chinese is not easy and Western firms face a host of problems in the Middle Kingdom (e.g., Blackman [1997]; MacDougall [1980]; Mann [1989]; Pye [1982]; Stone [1992]; Tung [1982, 1989]). Based on the existing literature and our case studies, this article endeavors to provide some basic guidelines for effective business negotiations with China. The purpose of the article is to arrive at an in-depth socio-cultural understanding of Chinese business negotiation process.

## **EMPIRICAL BASE**

The empirical base for this article is our investigation of Swedish multinational corporation Ericsson's negotiations of large mobile telecommunications projects with China during the periods 1990-1993 and 1995-1997. Ericsson is a world leader in telecommunications. Ericsson's history in China dates back to 1894 when the company made its first shipment of 2000 desk telephone hand-sets to Shanghai. Ericsson's re-entry into the Chinese market came in 1984 when Ericsson delivered its AXE-10 exchange to Beijing Telephone Administration. In 1985, Ericsson opened its first representative office in China. Since then, the company's China activities have experienced explosive growth and the company is now a major foreign player in the Chinese telecommunications infrastructure. Particularly, Ericsson is enjoying a dominant position in the area of mobile telecommunications. The first co-author of this article followed a China area manager at Ericsson Radio Systems AB, Stockholm, for three years in the early 1990s; a series of in-depth interviews were conducted with him and with one of his colleagues who was functioning as a liaison officer between Ericsson and the Chinese customers. The second co-author also conducted in-depth interviews with a large number of Ericsson managers and their Chinese negotiating partners during the period 1995 to 1997. Our major concern is to examine the Chinese business negotiation process from the vantage point of Chinese business culture. The article intends to answer these questions: What are the different stages of the Chinese negotiation process? What are the bargaining issues related to these stages? How can we understand Chinese negotiating style observed in various stages of the Chinese business negotiation process? The article concludes with five rules offered to Western business communities for negotiating effectively

with the PRC.

## **LITERATURE REVIEW**

In the management literature, there are ample discussions of international business negotiations (e.g., Dupont [1991]; Ghauri [1983, 1986]; Ghauri and Usunier [1996]; Rao and Schmidt [1998]). Particularly, increasing attention has been given to cross-cultural and marketing approaches to business negotiations since the 1970s (e.g., Graham [1980, 1985a,b] with cases addressing negotiation practices between developed and developing countries (e.g., Fayerweather and Kapoor [1976]), and between Western and non-Western cultures (e.g., Graham and Herberger [1983]). This approach, different from traditional social psychology and communication perspectives on negotiation, emphasizes the relevance of market environment for business negotiations and highlights the influence of political, legal, economic, technological and cultural factors on the negotiation process and outcome.

Given the growing importance of China in international business, Chinese business negotiation has also developed into a special area of inquiry since the 1980s. Number of writings, both academic and popular, that deal with business negotiations with the PRC has increased [Brunner and Taoka 1977; Blackman 1997; Chen 1993; Davidson 1987; Deverge 1986; Fang 1997; Hendryx 1986; Kirkbride, Tang, and Westwood 1991; Lee and Lo 1988; Pye 1982, 1986; Seligman 1990; Shenkar and Ronen 1987; Stewart and Keown 1989; Stone 1992; Tung 1982, 1989; Warrington and McCall 1983]. There is an international consensus that the Chinese are 'inscrutable', 'skillful', 'tough', 'shrewd' and 'tenacious' negotiators with a unique negotiating style.

Fang [1997] provides a survey of the Chinese business negotiation style. He finds that, despite achievements, the area suffers from five weaknesses: (1) lack of a systematic model; (2) lack of a cultural study of Chinese negotiating tactics; (3) lack of presence of a Chinese voice in the debates; (4) weak empirical description; and (5) pre-dominance of U.S.-China negotiation literature. Blackman's [1997] *Negotiating China*, a popular writing, is another major

effort that provides useful case studies of negotiating with the PRC. The literature review suggests that theoretically sound and empirically rich socio-cultural studies of Chinese business negotiation processes are few (Buttery and Leung [1998]). An energetic scholarship of Chinese business negotiation therefore calls for our attention to this issue.

### **A ‘PING-PONG MODEL’**

Given the purpose of this study, we have developed a model to structure our socio-cultural analysis of the Chinese business negotiation process (Figure 1). The model is based on a number of previous studies of international business negotiation and Chinese business negotiating style [Fang 1997; Ghauri 1996; Graham and Lin 1987; Graham and Sano 1989; Pye 1982] as well as our own observations. The model comprises two major constructs: (1) stages of the Chinese business negotiation process and (2) dimensions of Chinese business culture. Using the ‘Ping-Pong’ metaphor, we intend to emphasize the continuous back and forth bargaining feature in the Chinese business negotiation process.

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See Figure 1

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#### **Stages of the Chinese Business Negotiation Process**

Negotiation process is considered an interaction process of reaching agreements to provide terms and conditions for future behavior of the parties involved (e.g. Graham [1985a,b]; Ghauri [1986]; Ghauri & Usunier [1996]). Negotiation process can be divided into distinct stages. For example, Ghauri [1996] divides the international business negotiation process into three stages: (1) pre-negotiation, (2) negotiation, and (3) post-negotiation. These stages are conditioned by factors such as culture, strategy, background and atmosphere. Graham and his associates (e.g., Graham and Lin [1987]; Graham and Sano [1989]) develop a four-stage phase model of international business negotiation: (1) non-task sounding, (2) task-related exchange of information, (3) persuasion, and (4) concessions and agreement. ‘Non-task sounding’ includes all those activities for negotiating parties to get to know each other but does not involve

core business discussions. ‘Task-related exchange of information’ concerns the parties’ subjective needs and preferences of various alternatives open to discussions. ‘Persuasion’ deals with the parties’ attempts to influence the other party’s needs and preferences by using various persuasive tactics; ‘concessions and agreement’ involves the accomplishment of an agreement which often is the summation of a series of concessions.

Combining Ghauri’s [1996] three-stage model and Graham and his associates’ four-stage model and our own observations, we divide the Chinese business negotiation process into three stages: (1) *Pre-negotiation*: lobbying, presentation, informal discussion and trust building; (2) *Formal negotiation*: task-related exchange of information, persuasion, concessions and agreement; and (3) *Post-negotiation*: implementation and new rounds of negotiations.

### **Dimensions of Chinese Business Culture**

Furthermore, we adopt Fang’s [1997] Chinese business culture framework to understand the Chinese business negotiation process and negotiating style. Fang’s framework draws on previous works on environmental analysis of international business, Chinese culture, philosophy, social psychology and strategic Chinese thinking from Chinese folklore literature. The framework consists of three distinctive and interrelated dimensions: the *PRC condition*, *Confucianism* and *Chinese stratagems*.

#### ***The PRC condition***

The PRC condition, or *guoqing* in Chinese, is a set of contemporary social and institutional forces driving the PRC since it was founded in 1949. This dimension is comprised of the following eight variables. (1) *Politics*. China is a socialist state with the Chinese Communist Party as the ruling party. Chinese politics has a pervasive influence on every aspect of Chinese life; Chinese business and politics can hardly be separated. (2) *Economic planning*. Chinese economic structure is still essentially a centralized one that is characterized by strong government control. Chinese enterprises are not independent economic entities, but rather the ‘factories’ of the Chinese government who is the ‘biggest boss’. (3) *Legal framework*. China’s legal framework is still young and unstable;

law is often subjected to political ideology and influenced by many human factors. (4) *Technology*. China is short of modern technology. To import and attract foreign technologies in various forms to modernize China and enhance the people's living standard is the reason that China opened her economy in 1978. (5) *Great size*. Although China's family planning program has been rather success, its population is still the world's largest. To exchange the large Chinese market for advanced foreign technologies is China's state policy. (6) *Backwardness*. China is still a relatively poor country with some 300 million people living under the UN-poverty level (i.e., one US dollar per day). Education and infrastructure are unevenly developed and may not be satisfactory in many places. (7) *Rapid change*. Reform and importation of foreign technology since the late 1970s have brought about great changes in the Chinese society. Maoist ideology, traditional Chinese cultural values and Western life styles are found to exist side by side in today's Middle Kingdom. (8) *Chinese bureaucracy*. At the center of the PRC condition lies the theme of Chinese bureaucracy which is characterized by both red-tape and quick buying (i.e., when products fit in the government's priority categories). The Chinese bureaucrats observe what Deverge [1986] calls the cardinal principle of Chinese bureaucracy: 'He who does nothing makes no mistakes'. From the perspective of the PRC condition, the Chinese negotiator avoids taking responsibility, fears criticism, shows indecision, and has no final say, among other things.

### ***Confucianism***

Confucianism is a 2500-year-old Chinese philosophical tradition which has exerted a fundamental influence on people's modes of thinking and ways of behaving not only in China but also in the entire East Asia. Six basic Confucian values relevant for our study can be identified. (1) *Moral cultivation*. Confucianism, a form of moral ethic, emphasizes moral cultivation and lifelong learning. Sincerity, trust and righteousness are important qualities for a person to be human. Legal power does not feature at all in Confucianism. (2) *Importance of interpersonal relationships*. Confucianism is also a practical teaching of interpersonal relationships and conducts. It defines the Five Cardinal Relationships (*Wulun*) in human society, i.e., the relationships between ruler and subject, father and son, husband and wife, elder and younger brothers, and

older and younger friends. These relationships are essentially hierarchical, reciprocal, and family-centered. (3) *Family and group orientation*. In Chinese culture, family is the most basic and important social unit. The Confucian philosophy sees a direct transition from *jia* (family) to *guo* (state). Consider that the Chinese equivalent of 'country' is *guojia*, meaning state and family always staying side by side. A Confucian aphorism goes: "If you want to rule the state, first put your family in order". (4) *Respect for age and hierarchy*. One important hallmark of Confucianism is respect for age and hierarchy. In the Confucian tradition, age is wisdom and must be respected. Hierarchy is honored through ordering relationships in which every person does his/her duty to achieve social harmony and stability. (5) *Avoidance of conflict and need for harmony*. Confucianism stresses the need to achieve harmony in society through moral conduct in all kinds of relationships. Confucius says that a true gentleman does not quarrel and lose his temper. (6) *The concept of Chinese face (mianzi, lian, see also Hu 1944)*. Although face is a universal human concern, it is particularly salient for the Chinese culture. Behind the Chinese concept of face lies the Confucian notion of shame. Face functions as a "self-regulating" mechanism for mobilizing people in a society and has a pervasive bearing on all aspects of Chinese life. Negotiation is based on mutual respect, trust and benefit and is marked by a considerable Chinese attention to etiquette.

### ***Chinese stratagems***

According to Fang [1995, 1997], all the secrets, myths and mysteries about Chinese negotiating tactics can be traced back to a single important Chinese word which is unknown to the West: *ji*. The word *ji* appeared as early as 2300 years ago in the world's oldest treatise on military strategy, *Art of War*, written by a great ancient Chinese military strategist, Sun Tzu. Of a total of 13 chapters contained in *Art of War*, Sun Tzu begins with 'Chapter of *Ji*'. In Chinese, *ji* is a neutral word which conveys both positive and negative meanings depending on the context in which it is used. *Ji* can be understood as a set of human wisdom or a carefully devised scheme with which to deal with various kinds of situations and gain material and psychological advantage over the opponent. Fang [1995, 1997] translates *ji* into English as 'Chinese stratagem(s)' which conveys the meanings of both strategy and tactics. A variety of Chinese stratagems can be found in Sun Tzu's *Art of War*, but at the center of the notion of Chinese



stratagems lies Sun Tzu's admonition to 'subdue enemy without fighting' [Sun Tzu 1982, p.77]. The Chinese people have compressed much of their wisdom in dealing with various situations into a 138-character compendium entitled *The Thirty-Six Stratagems* (see Table 1). These 36 Chinese stratagems, apparently soft but essentially tough, all share Sun Tzu's thinking of subduing one's enemy without fighting; they provide an indirect Chinese way of contending. Chinese stratagems are a strategic force driving the Chinese mind not only in China but also in all Chinese societies the world over.

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See Table 1

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The Chinese mentality – 'The marketplace is like a battlefield' – allows us to link Chinese stratagems with the Chinese style of business. In business negotiations we find an amazing fit between the patterns of Chinese negotiating tactics and the recipes of the 36 stratagems. For example, a list of Chinese negotiating tactics can be classified under each of the 36 ancient Chinese stratagems: e.g., attacking the opponent's vulnerabilities (Stratagem 2: 'Besiege Wei to rescue Zhao'); playing home court (Stratagem 4: 'Await leisurely the exhausted enemy'); manipulating friendship (Stratagem 10: 'Hide a knife in a smile'); hospitality (Stratagem 31: 'The beautiful woman stratagem') and pitting the competing foreign bidders against each other (Stratagem 3: 'Kill with a borrowed knife'). From the Chinese stratagems perspective, the Chinese negotiator seldom wages a physical war but rather is keen on a psychological wrestling of wit to manipulate his opponent into doing business his way.

## **CHINESE BUSINESS NEGOTIATION PROCESS**

In this section, we use the 'Ping-Pong Model' to analyze the Chinese business negotiation process based on our empirical investigations of business negotiations about large telecommunications projects between the foreign firm Ericsson and the Chinese customers.

### **Pre-Negotiation**

The Chinese negotiation process started with early contacts with the Chinese government authorities. The Chinese showed keen interests in getting to know the other party during these initial contacts. They tried to ascertain whether or not the foreign firm has (1) the most advanced technology required for the project; (2) the willingness to sell or transfer it to the Chinese by way of, for example, joint venture; and (3) the capability of delivering the products on time.

**Lobbying.** Lobbying before the Chinese government authorities is the most important activity facing foreign firms that want to sell large industrial projects in Chinese key industries like telecommunications. Foreign firms must convince the Chinese that they have cutting-edge technologies that suit Chinese government's priorities, that they have long term commitment to the Chinese market; and they are financially strong. They must present a highly reliable image before the Chinese, making them feel safe to business with them. The Chinese said that they liked to do business with 'big mountains' like Ericsson which they could trust and rely on in the long run. One Ericsson manager (local Chinese) emphasized that lobbying, though existing in all countries, is particularly important in China; lobbying must occur not only in Beijing but also in all large cities, both coastal and inland. Lobbying channels include visits to government authorities (e.g., the Ministry of Post and Telecommunications – MPT), presentations, advertising in professional journals and informal channels such as dinner parties.

**Presentation.** Giving attractive and reliable presentations to let potential Chinese partners know the company, products and negotiating team members is an important step toward formal negotiation sessions. Presentations aim to convince the Chinese of the sincerity of the company in doing business with China and show the Chinese that the company's products are an *advanced technology* with *high quality* and *reasonable\_price*. Foreign firms need to present themselves and their technologies to a number of authorities. Very often one has to endlessly repeat the same things to different negotiators who may suddenly, without explanation, be replaced by another team. One Ericsson negotiator said:

‘You have to learn how to make presentations ... you have to present your technology and company many times to different groups ... and sometimes the same group comes back, but of course, they do not remember anything from the earlier presentation ... they ask the same questions ... I think they do this to check you’.

Ericsson provided all the presentation material in English and Chinese, since most Chinese decision-makers were above 50 years of age and did not speak English. Sometimes the foreign team of 3-4 persons had to meet a Chinese team of 10-15 people; one translator on the foreign team was not enough to help communicate efficiently with the Chinese. The presentation materials were made available for both potential end-users (e.g., local PTAs and MPT affiliated plants) and various Chinese government authorities (e.g., State Planning Commission, MOFTEC, MPT). It was at times a problem to duplicate high quality presentation materials quickly in China. A portable PC and printer, along with all the information, calculations and necessary stationery when visiting Chinese customers is a necessity.

*Informal discussion.* Initial and informal discussions with Chinese organizations often occur directly after the presentations. At this early stage, the Chinese already showed a keen concern for *technology* and *price*. For example, they were interested in not only the price but also in comparing the price with competitors. In one case, Ericsson succeeded in convincing the Chinese that although its price was much higher than that of the Japanese, its system capacity was more powerful; and its technology was better and would facilitate future expansions.

*Trust building.* The Chinese attach great importance to trust building in business negotiations. One of the Chinese negotiators explained:

‘They [Western firms] want to come and sign the contract quickly and do not know that [if] we do not understand each other ... there is no business relationship. First, we have to know and trust

each other, then we sign the contract’.

Nevertheless, an Ericsson manager observed that it was rather difficult to develop close social relationships with the Chinese. For example, the Chinese seldom invited foreigners to their homes. During the pre-negotiation phase, Chinese organizations sent delegations abroad for fact-finding tours. Being the host, the foreign firm could get many insights into Chinese priorities in industrial policies and development plans. In several cases, the Swedes invited the Chinese to come to Sweden to inspect the technical systems in operation. It proved to be much easier to understand the Chinese priorities and main concerns during such visits. Hosting a Chinese delegation also provides a good opportunity for foreign firms to strengthen friendship with the Chinese. For example, Ericsson invited the Chinese to Sweden not only to show them plants, facilities and technologies, but also to take them sight-seeing and have them participate in social activities. These gestures of hospitality turned out to be greatly valued by the Chinese.

In Chinese culture, trust is high within but low outside family and kinship borders. The Chinese constantly find themselves being put in such a quandary: business can only be done between people who have a high level of mutual respect and trust; however, business partners cannot always be immediate or extended family members. The pressures from Chinese bureaucracy ‘force’ the Chinese to deal only with the best in order to feel safe. The Chinese ‘relying on big mountains’ mentality also reflects the Chinese need for face: doing business with second-class firms would make the Chinese lose face. This behavior can also be explained from the Chinese stratagems perspective: teaming up with a strong foreign partner will help breath new life into ‘dying’ Chinese firms that have many technological, financial and management problems, a stratagem called ‘Borrow a corpse to return the soul’ (Stratagem 14, see Table 1). The Chinese sensitivity to price is well known; the average living standard in the PRC and Chinese companies’ lack of foreign exchange are main reasons. That the Chinese do not invite foreigners to their homes should not be blamed on a lack of hospitality. In the PRC, every state employee belongs to a *danwei* which controls much of the employee’s life. Internal regulations generally do not encourage individuals to receive foreign visitors alone. Their still crowded housing conditions also embarrass many Chinese who may choose to shy away from hosting foreign guests at home.

### **Formal Negotiation**

***Task-related exchange of information.*** Formal negotiation started when the Chinese showed a strong interest in ‘further discussions’ and both parties signed a ‘letter of intent’. The Chinese used to send a formal document, informing the foreign party of the composition of the Chinese team and ideas for future meetings. In our cases, the following Chinese organizations were involved in the formal negotiation sessions: Managers from national industrial corporations under MPT, managers from MPT-affiliated plants (users of the technology to be transferred), officials from Bank of China (foreign exchange controlling organization), design staff from research institutes and sometimes local government officials. On the Swedish side, the negotiators were Ericsson’s China area manager, product/technology manager, in-house lawyer, technical support and an intermediary (interpreter or liaison officer). An obvious contrast between the Chinese and the foreign teams is that the Chinese lawyers seldom participated in the negotiations. Contentious issues emerged during this phase. In joint venture negotiations, the Chinese and Swedes spent a great deal of time in discussing, for example, equity share, contribution of each party, management control, technology, price and terms of payment.

- Equity share. The Chinese were sensitive to their equity holdings and insisted on having at least 50% holding, because they believed that majority ownership would lead to control. The Chinese also considered the equity share a matter of ‘state sovereignty’ having political importance.
- Contribution of each party. The Chinese side contributed tangible resources like production premises, existing machinery and equipment, labor, etc.; while the foreign side provided intangible resources like technology, managerial training, marketing know-how, international networking, etc. It was relatively easy to estimate the tangible costs but difficult to assess the intangible costs.
- Management control. While the Swedes wanted to ‘teach’ the Chinese modern management know-how through keeping as many senior management positions in the joint venture as possible, the Chinese wanted to share senior

management positions with the Swedes according to the parties' equity share. The Chinese were keen on acquiring financial manager and administrative (or human resource) manager positions.

- **Technology.** The Chinese wanted absolutely to obtain the best technology. They were deeply concerned about the Western firms' willingness to transfer the technology and to train the local Chinese. The foreign side was, on the other hand, very concerned about how to protect its technology and patents. Ericsson spends some 20% of its sales on R&D annually. According to one Ericsson negotiator, it was difficult to make the Chinese understand the R&D cost incurred by the foreign firm; they believed that once they had paid for the project they would automatically be entitled to use whatever technologies they pleased. The term "development technology" [*kai fa ji shu*] and "rolling technology" [*gun dong ji shu*] are coined by the Chinese to refer to the newer generations of the technology being "rolled" constantly into the joint venture.

- **Price.** The Chinese demanded very low technology transfer prices, royalty fees, documentation fees, and so on. They thought prices offered by the foreign party were always too high. The Swedes, on the other hand, considered the Chinese the 'only take, never give' type. However, the Chinese side considered that they had already given too much – a huge Chinese market – to the foreigners. It seemed that the Chinese keenly knew the value of the Chinese market as well as the value of foreign technology. What they did was to 'trade' the Chinese market for foreign technology.

***Persuasion.*** The Chinese use a variety of negotiating tactics to persuade the other party to do business their way: flattery, identifying the opponent's problems, shaming, deception and pitting competing foreign companies against one another. One Ericsson manager cited a case:

'Once one of the Chinese negotiators insisted that our project in Thailand had some problems and that our technology did not work well. I did not say anything, but when I came back to the hotel, I called the head office and asked our office in Bangkok to check ... there was no problem. Next day, in a private meeting,

over the dinner, I told the Chinese Manager that his statement about Thailand was not correct and that I did not say anything in yesterday's meeting not to embarrass him... I gave him the telephone number of our Thai counterpart and asked him to check for himself. After that he became very friendly and even helped us to get that order'.

In one case, the Chinese were driving parallel negotiations with Ericsson and Nokia. These two Nordic 'brothers' had a hard time in those days: they not only took their turns to court the same 'bride', but also happened to stay in the same hotel in Beijing, looking into each other's heavy-hearted eyes over the breakfast tables every morning. Consequently, the Chinese succeeded in getting most of what they demanded.

***Concessions and agreement.*** The formal negotiation ends with an agreement by the negotiating parties through their concessions or compromise. In this stage, the Chinese showed a strong inclination to settle all suspending issues holistically in a 'package deal'. The Chinese made concessions too; however, their concessions very often turned out to be a disguised gesture to attract the Westerners into making real concessions.

When drafting the contract, the Chinese weighed words meticulously when it came to the clauses that would affect the Chinese, while treating issues of concern to the foreign party as generally as possible. Agreement was almost always signed in the presence of high-ranking officials from the government authorities and followed by a series of lavish banquets and ceremonies. While enjoying the Chinese hospitality and etiquette, one Swedish negotiator also described a Chinese negotiating tactic:

'A tactic which I believe that the Chinese employ is that ... they set the deadline on a certain week and arrange a banquet long before the contract is actually ready. They told us that things must be ready on Saturday when the mayor would come to the banquet. In this way the Chinese applied pressure on us to reach

an agreement. This was common. ... You became a little disappointed the first time you came cross such a situation. But, after a while, when you recognized the same thing happening again in other places, you knew that it was a tactic’.

In analyzing the formal negotiation stage, we find that Chinese negotiating teams tend to be large; people from many organizations and departments take part in negotiations and ask many questions. From the PRC condition point of view, Chinese companies are not companies in Western terms; rather, they are ‘factories’ of the Chinese government. ‘Collective participation’ facilitates communication among the Chinese and in case something goes amiss, the ‘collective responsibility’ would also allow individuals to escape punishment. The Chinese propensity to ask many questions seems necessary given China’s relatively new involvement in international business and their curiosity about foreign technologies. But the same behavior may also be understood from the Chinese stratagems perspective as a tactical move to stimulate the other party to show its hand first: ‘Beat the grass to startle the snake’ (Stratagem 13).

The persuasion tactics used by the Chinese in our study were all this type: using external forces to influence instead of direct confrontation. For example, the Chinese reference to the Thailand project (a third party) was aimed at attacking the foreign party’s weakness (e.g., quality) in order to gain more bargaining power on other issues (e.g., price). The prototype of this tactic can be found in the Thirty-Six Chinese Stratagems: ‘Besiege Wei to rescue Zhao’ (Stratagem 2). It turned out that the Chinese attack was groundless, probably because they had not carefully ascertained their source of information. But ‘Create something out of nothing’ (Stratagem 7) is a Chinese stratagem which serves to gain advantage by conjuring illusions. The Swedish manager did not argue with the Chinese in the formal sessions but rather explained to him informally. This proved to work well; the Chinese certainly felt the Swede was honest and sincere and, most important of all, helped the Chinese save face. Therefore, he also became friendly, helpful, and did favors (paying back *renqing*) in return.

The Chinese way of making concessions, as showed in this study, is to ‘Toss out a brick to attract a piece of jade’ (Stratagem 17) or to exchange their ‘small



things' with the opponent's 'big things' as the Swedish negotiator remarked. In wording the contract, the Chinese style of dealing with details is a direct outcome of Chinese bureaucracy. Chinese are punished if they make mistakes but they are rarely rewarded for their outstanding performance; this rule of the Chinese bureaucratic game prods the Chinese to prefer doing nothing to doing one hundred things with one mistake.

### **Post-Negotiation**

***Implementation and new rounds of negotiations.*** Our empirical findings reveal that problems in negotiating with China also exist after the formal negotiations, i.e., during the phase of implementation of the agreement. Generally speaking, the Chinese honor their contract; however, cases of Chinese non-fulfillment of their obligations do occur. In one case, the Swedish firm entered a joint-venture agreement with the Chinese. It was agreed by the parties that the joint venture would have a Swedish managing director (MD) and that he would be provided with a Western-standard residence in China. Later, when the Swedish MD arrived in China, he was offered a Chinese-standard residence similar to those of other Chinese senior executives. The Swedish side asked the Chinese to observe what was written in the contract but the Chinese did not agree. The Chinese argued that providing a Western-standard residence for the Swedish MD was unfair to the Chinese senior executives who worked in the same joint venture. The conflict deteriorated to the point that the Swedish side was about to calculate the consequences of terminating the contract. However, the Chinese were stubborn on their stand, reasoning that the Western-style residence demanded by the MD would cost about US \$70,000, equal to the salaries of some 200 Chinese workers altogether and the joint venture could not bear such a huge cost. Finally, a compromise solution was reached through new rounds of negotiations.

Negotiation with China almost always extends to the post-negotiation stage. The PRC condition and Confucian tradition provide the answers. China is such a large country that *anything can happen*. The experimental nature of China's reforms, unevenly developed infrastructure, scarce natural resources per capita, and not least the large Chinese bureaucracy all result in problems which can

crop up anywhere at any time in the PRC so that things normally do not work as they should. Therefore, the basic Chinese mentality of contracting is problemsolving based on the changing situations instead of contracts. We believe, that the Chinese, in this case, must have known what the Western-style residence meant when signing the agreement. Flatly rejecting the implementation of the agreement certainly violated the 'law of Chinese face'.

## **MANAGERIAL IMPLICATIONS**

Based on the above discussions, we can draw some managerial implications for negotiating effectively with the PRC. Our advice is organized by way of 5 P's: Priority, Patience, Price, Precision, and People.

### **Priority**

Driven by 'China fever' and the belief that China needs foreign technologies, Western business people rushed into the Chinese market with various advanced technological solutions. Some succeeded but many failed. An important reason for the failure is that the PRC condition has not been paid sufficient attention: Chinese government is the 'biggest boss' and all Chinese state enterprises do business according to the government's priorities, policies and plans. Our research shows that in negotiating large industrial projects with the PRC, foreign firms should above all, be sensitive to the guiding principles of China's social and economic development set forth by the Chinese Communist Party and the Chinese government. Also, to make a careful study of the Chinese government's priorities and implementation policies. The priorities are also important indicators of what the Chinese want to spend their foreign exchange on. It is therefore vitally important for a Western firm to determine whether its project comes into the priority project category or not. If the project is included in the Chinese priority

categories, it will be given attention by the Chinese side and negotiations will proceed relatively quickly; if not, there may be problems in everything. Energy, transportation and telecommunications are among the traditional Chinese priorities. Recently, revitalizing China's deficit-ridden state-owned enterprises is also added to the list of Chinese priorities. Before priorities become public knowledge, foreign firms may still be able to get much of the picture. This study

suggests that Chinese delegations' visits to foreign firms help to provide valuable opportunities for the latter to receive insights into Chinese priorities and preferences.

### **Patience**

Patience is the most important qualification for successful negotiations with China. From the PRC condition point of view, China is large with many underdeveloped areas from infrastructure to living facilities and problems of various types are bound to happen. Negotiations in China often take time because different Chinese organizations and different departments within one organization tend to be involved in negotiation processes. From the vantage point of Confucianism, Chinese will not rush into any serious discussion with someone whom they do not know; trust and a certain feeling of closeness must be in place for any negotiation to start. The Confucian notions of relationship (*guanxi*), face (*mianzi*), etiquette (*li*), harmony (*he*), and so forth, are all time-consuming qualifications. Therefore, it takes time to negotiate with the Chinese because it takes time to communicate with 'Confucian gentlemen'. The Chinese may use these stratagems *deliberately* or *inadvertently* in negotiations. When mutual trust is not very high and the Chinese are exposed to bureaucratic pressures, tricky situations are but common scenes in Chinese business negotiation process. In an interview, one Ericsson manager said that when getting very upset with the Chinese sometimes, he kept telling himself to be patient, patient and patient to work for the long-term interest of his company.

### **Price**

Price is the most difficult and crucial factor in business negotiations with the Chinese. The Chinese emphasize trust; if a foreign firm reduces its price radically, the Chinese negotiators will get suspicious and the risk is high that the firm will lose its credibility in the Chinese eyes. On the other hand, the Chinese are face-creatures; if a foreign firm rejects any Chinese request for a price discount, the Chinese will most probably feel insulted. If the Chinese feel they have lost face before the foreign 'evils of capitalism', they will certainly try to 'repay' (*bao*) your 'evils' by using whatever Chinese stratagems are necessary to deal with you the next round. As a case in this article suggests, when the

Chinese find that the foreign side is ‘giving face’ to them, they will adjust themselves accordingly and be more helpful and friendly in the later rounds of negotiations. Therefore, we recommend that foreign parties calculate prices and bargaining limits carefully, and always reserve certain margins to the Chinese to allow them to gain face. Foreign firms can also adopt other strategies to try to influence the Chinese to negotiate the foreign way. Earlier, we mentioned a case of a Chinese delegation visiting Sweden. In Sweden and other Scandinavian countries, business is seldom done on a bargaining basis (of course, buying houses, cars, and boats are among a few exceptions). Our initial observation reveals that after the Chinese had stayed enough time in Scandinavia and discovered that Scandinavian people do business in a different cultural ambience, the Chinese could reduce their bargaining tone to a certain extent. Another issue concerns the cost of foreign personnel. The Chinese do not seem to be willing to pay for the huge cost of foreign expatriates. The daily cost of a foreign expatriate could be as much as the yearly cost of a dozen Chinese employees. We think that the parties should exchange views on both the PRC *and* the Western *conditions* to find satisfactory solutions to the problems.

### **Precision**

The PRC condition tells that China joined the international business community recently and the Chinese are eager to learn. Often, the Chinese need details to compare offers with those of competitors – a Chinese stratagem. Hence, it is in the interest of the selling firm to provide the Chinese with detailed and precise specifications to facilitate Chinese decision making. Furthermore, it is very important to be accurate and precise in the presentations. If there is a mistake, not only will the firm lose its credibility but the Chinese will also use that mistake as a bargaining tactic in formal negotiations – also a Chinese negotiating stratagem. Precision is also required in the implementation stage. ‘Work-in-progress’ meetings are recommended to see what has or has not been implemented based on the contract and, equally important, in the spirit of cooperation. In this manner one can avoid many potential problems and create a positive working atmosphere.

### **People**

Because of the deep Confucian aversion to law and orientation toward interpersonal relationships, the Chinese do not believe in contract; they believe in people. They do business with a person not with a company. Foreign firms need to take a people-oriented approach to business negotiations with China and to nurture a healthy *guanxi* with the Chinese negotiators. Chinese teams' foreign visits are probably the best time for the foreign party to develop *guanxi* with the Chinese. Traveling in Western countries is still considered by the Chinese a privilege and, if offered with special hospitality, will be greatly appreciated by the Chinese. According to the Confucian rules of human relationships, the Chinese will reciprocate hospitality when visited in China next time. Relationship marketing focused on people has become an academic buzzword in Western marketing theory since the late 1980s and a competitive weapon recognized by many Western firms recently. In China, everyone will answer a question of what marketing is all about without hesitation: *guanxi*. That is why a senior Ericsson executive in China (local Chinese) said: "To do things in China, you must do people first".

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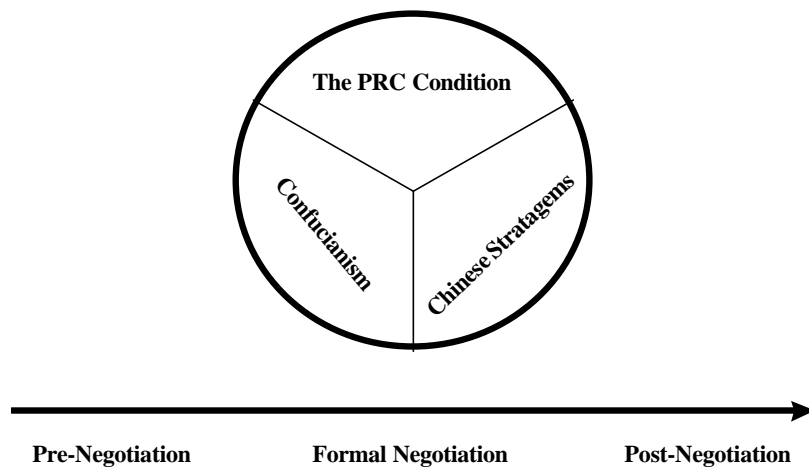


Figure 1 Socio-Cultural Analysis of the Chinese Business Negotiation

Process:

A 'Ping-Pong Model'

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Stratagem 1	Cross the sea without Heaven's knowledge.
Stratagem 2	Besiege Wei to rescue Zhao.
Stratagem 3	Kill with a borrowed knife.
Stratagem 4	Await leisurely the exhausted enemy.
Stratagem 5	Loot a burning house.
Stratagem 6	Clamor in the east but attack in the west.
Stratagem 7	Create something out of nothing.
Stratagem 8	Openly repair the walkway but secretly march to ChenCang.
Stratagem 9	Watch the fire burning from across the river.
Stratagem 10	Hide a knife in a smile.
Stratagem 11	Let the plum tree wither in place of the peach tree.
Stratagem 12	Lead away a goat in passing.
Stratagem 13	Beat the grass to startle the snake.
Stratagem 14	Borrow a corpse to return the soul.
Stratagem 15	Lure the tiger to leave the mountains.
Stratagem 16	In order to capture, first let it go.
Stratagem 17	Toss out a brick to attract a piece of jade.
Stratagem 18	To capture bandits, first capture the ringleader.
Stratagem 19	Remove the firewood from under the cooking pot.
Stratagem 20	Muddle the water to catch the fish.
Stratagem 21	The golden cicada sheds its shell.
Stratagem 22	Shut the door to catch the thief.
Stratagem 23	Befriend the distant states while attacking the nearby ones.
Stratagem 24	Borrow the road to conquer Guo.
Stratagem 25	Steal the beams and change the pillars.
Stratagem 26	Point at the mulberry tree but curse the locust tree.
Stratagem 27	Play a sober-minded fool.
Stratagem 28	Lure the enemy onto the roof, then take away the ladder.
Stratagem 29	Flowers bloom in the tree.
Stratagem 30	The guest becomes the host.
Stratagem 31	The beautiful woman stratagem.
Stratagem 32	The empty city stratagem.
Stratagem 33	The counter-espionage stratagem.
Stratagem 34	The self-torture stratagem.
Stratagem 35	The stratagem of interrelated stratagems.
Stratagem 36	Running away is the best stratagem.

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Table 1 The Thirty-Six Chinese Stratagems

Source: Fang [1997, p.139]

