

**THE IMPACT OF CULTURE IN  
INTERNATIONAL BUSINESS NEGOTIATIONS:  
SPECIAL REFERENCE TO CHINA AND  
UNITED STATES OF AMERICA.**

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**ABSTRACT:** *Culture is a major element of international business negotiations. It is often compared to an iceberg; there is more to it than meets the eye. These hidden elements, if not understood, can make or break an international business transaction. It is thus important to be aware of cultural influences on negotiations. Salacuse, a leading expert on negotiations, has found ten ways that culture affects negotiations. This paper aims to use the ten elements as a framework for identifying the cultural differences between China and the United States of America.*

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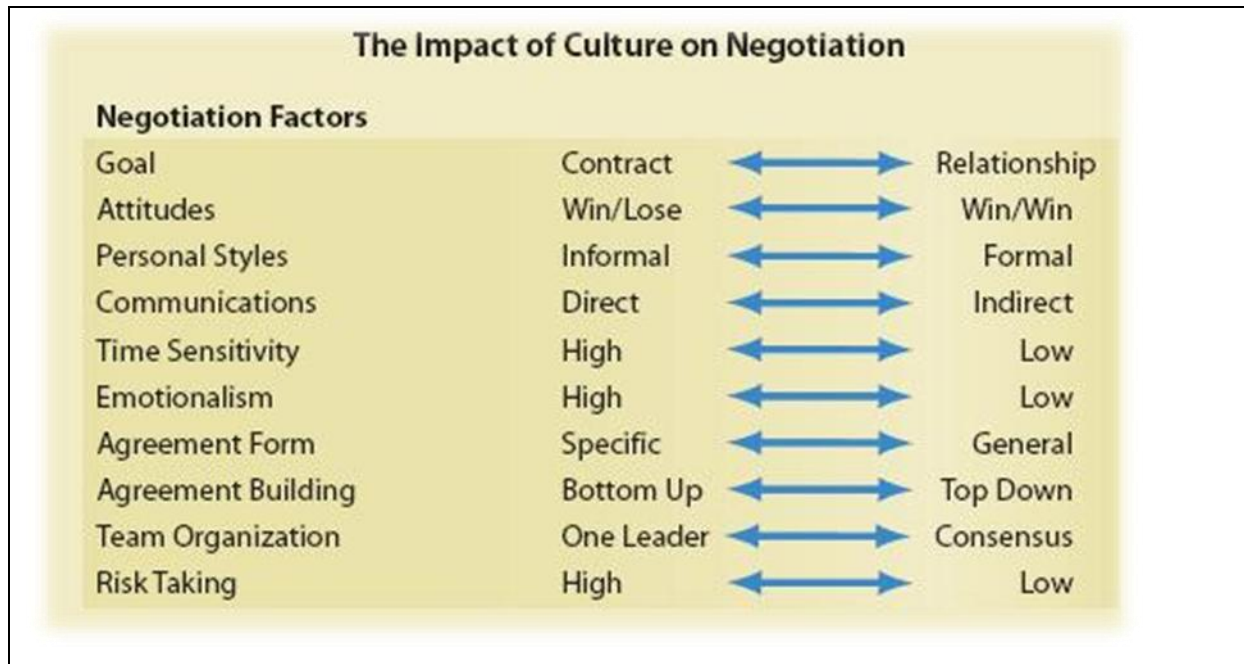
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## TABLE OF CONTENTS

<b>1. INTRODUCTION .....</b>	<b>1</b>
1.1 Culture.....	2
<b>2. TOP TEN WAYS CULTURE CAN AFFECT NEGOTIATIONS .....</b>	<b>2</b>
2.1 Negotiating Goal .....	2
2.2 Negotiating Attitude.....	3
2.3 Personal style: Informal or formal?.....	3
2.4 Communication: Direct or indirect?.....	4
2.5 Sensitivity to time.....	4
2.6 Emotionalism: High or low? .....	4
2.7 Form of agreement: General or specific?.....	5
2.8 Building an agreement: Bottom up or top down? .....	5
2.9 Team Organization: One leader or Group Consensus?.....	5
2.10 Risk taking: High or low? .....	6
<b>3. CONCLUSION .....</b>	<b>6</b>
Table: Summary of American and Chinese Culture and Styles Negotiating Styles .....	6
<b>BIBLIOGRAPHY .....</b>	<b>8</b>

## 1. INTRODUCTION

‘American and Chinese approaches often appear incompatible. All too often, Americans see Chinese negotiators as inefficient, indirect, and even dishonest, while the Chinese see American negotiators as aggressive, impersonal, and excitable’<sup>1</sup>. These differences stem from their cultural backgrounds. Thus an understanding of the differences can prevent misunderstanding between individuals and thus create mutually beneficial business relationships.<sup>2</sup> It is evident that culture plays an important role in international business negotiations. Its influence can make or break a transaction. Salacuse has identified the ten most important cultural factors that affect business negotiations. The aim of this paper is to evaluate the cultural differences between China and USA applying the ten elements as a benchmark.



Source: Salacuse, J.W., *Negotiating: The Top Ten Ways That Culture Can Affect Your Negotiation*, IBJ (2004)

<sup>1</sup> Graham, J.L., and Lam, M.N., *The Chinese Negotiation*, 81 HBR 10 (2003) <http://www.globalnegotiationbook.com/John-Graham-research/negotiation-v1.pdf> (last visited on 5 May 2010).

<sup>2</sup> Mole, J., *Mind Your Manners: Managing Business Cultures in Europe*, (eds.) (London: Nicholas Brealey, 1998) 219

## 1.1 Culture

The increasing interdependence between nations, businesses and people has brought the importance of national cultures to the forefront. Culture is defined as the socially transmitted behaviour patterns, norms, beliefs and values of a given community. Culture greatly influences how individuals think, communicate and behave. Thus it has a great influence on some aspects of a negotiation. It is important to note that culture and nationality are not always the same.<sup>3</sup> Cultures within a nation can be distinct. This paper will focus on the cultures identified with China and America.

Chinese culture is greatly influenced by traditional philosophies including Confucianism and Taoism. The philosophies place great importance on patience, harmonious relationships and survival instinct.<sup>4</sup> On the other hand, the Americans are more individualists and they value networking and information. Another difference is that most of the Chinese reside in the rural areas compared to Americans who reside in the urban areas thus Chinese are more communal.<sup>5</sup>

## 2. TOP TEN WAYS CULTURE CAN AFFECT NEGOTIATIONS

According to Salacuse, there are ten elements that consistently arise to cause difficulties in intercultural negotiations.<sup>6</sup> This paper will apply these elements to identify cultural differences that may arise during the negotiation process between the world's leading economic powerhouses - America and China.

### 2.1 Negotiating Goal

The purpose of negotiations varies among cultures. For some cultures, the primary goal of negotiations is to reach a deal and sign a contract, while other cultures view it as the establishment of a long term relationship between the parties which will eventually lead to a contract. In China, the creation of interpersonal relations takes priority over a commercial

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<sup>3</sup> Salacuse, J.W., "Intercultural negotiation in international business", (1999) *Group Decision and Negotiation*, Vol. 8, pp. 217-36.

<sup>4</sup> Sebenis.J.K., and Qian.C.J., *Cultural Notes on Chinese Negotiating Behaviour* (2008) <http://www.hbs.edu/research/pdf/09-076.pdf> (last visited on 10 May 2010)

<sup>5</sup> *Supra.* note 1

<sup>6</sup> Salacuse, J.W., *Negotiating: The Top Ten Ways That Culture Can Affect Your Negotiation*, IBJ (2004)

transaction.<sup>7</sup> Relationships are at the heart of Confucianism. ‘In the eyes of the Chinese people, any relationship between businesses is ultimately built upon relationships between individuals’.<sup>8</sup> Hence trust has to be established before participation in a business relationship the pre-negotiation stage is important for the Chinese. In contrast, the American’s attach more importance to a signed contract. This might be because American negotiators generally tend to be lawyers and by virtue of their law school training they go into negotiations with the aim of getting a signed contract. Once the agreement has been reached it is deemed to be final and all details must be adhered to. Thus there will be a tendency to rush the preliminary stage which could lead to mutual misunderstandings and offense which can negatively affect the negotiation process.<sup>9</sup>

## **2.2 Negotiating Attitude**

Parties from different cultures tend to come to the negotiation table with a win-lose or win-win attitude. The win-win negotiators view the negotiations as collaborative efforts where both parties gain, whereas the confrontational nature of the win-lose negotiators usually results in one side winning and the other losing. Both the Chinese and the Americans view negotiation with a win-win attitude.<sup>10</sup>

## **2.3 Personal style: Informal or formal?**

Culture strongly influences the personal styles of negotiators. Negotiators from formal styles tend to address their counterparts by their titles and avoid discussing personal matters. In contrast, negotiators from informal cultures tend to hastily attempt to establish a friendly relationship. Americans tend to be more informal than the Chinese. For example, Americans may address each other by their first names even though they are just acquaintances. In contrast, Chinese address each other in a formal way as it is a sign of respect. Only people, who know each other very well refer to each other by names i.e. childhood friends and spouses. It is advised that negotiators must respect appropriate formalities in foreign cultures.

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<sup>7</sup> Jiachu, K., Shifi,Z and Li.L., *International Business Negotiations in the People’s Republic of China*, in ABA Guide to International Business Negotiations: A Comparison of Cross-Cultural Issues and Successful Approaches, (Silkenat, J.R., and Aresty, J.M., 2<sup>nd</sup> Ed, ABA: USA, 2000) p. 400

<sup>8</sup> *Supra*. note 4

<sup>9</sup> Faure, G.O., *The Cultural Dimension of Negotiation: The Chinese Case*,8 GDN (1999)

<sup>10</sup> Salacuse, J.W., The Top Ten Ways Culture Affects Negotiating Style: Some Survey Results, <http://fletcher.tufts.edu/salacuse/top10.html> (last visited on 10 May 2010)

## **2.4 Communication: Direct or indirect?**

Cultures can differ in preferred communication styles. Some cultures value direct and simple methods of communication whilst others prefer indirect and complex methods such as the use of figure of speech, facial expressions and body language. The direct style is a feature of the Americans, that is, being straightforward convey honestly and trustworthiness. However, the Chinese have an indirect style which can come across as vague and ambiguous. For example, smiling is a common means of communication when people meet. However, it can express different meanings such as cooperation or denial, joy or anger, trust or distrust thus it can be viewed as a mask.<sup>11</sup>

## **2.5 Sensitivity to time**

Attitudes to time vary among cultures. The Chinese prefer slower negotiations, whilst the Americans, believe that time is money and are in a hurry to conclude the deal. This reflects their contrasting views on the purpose of a negotiation. The Americans try to reduce the formalities and get the contract signed whilst the Chinese invest time in the pre-negotiating phase to get to know their potential business partner and determine if there is the possibility of a long term business relationship. Thus the attempt to shorten the process might be viewed as efforts to conceal something which leads to mistrust.

## **2.6 Emotionalism: High or low?**

Some cultures show their emotions at the negotiation table, while others hide their feelings. The Chinese tend to show low emotion during negotiation and they are really concerned about saving face and maintaining their composure. Hence they'd be deeply offended by opposing negotiators that would embarrass them, be it intentionally or unintentionally. In sharp contrast, Americans are generally known to speak out their mind even if it might cause other counterparts embarrassment. They feel all facts should be presented before an agreement is reached. The above is not necessarily the case for all individual personalities. However, it is important for negotiators to be aware of the certain culture's tendency to act emotional or vice versa.

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<sup>11</sup> *Supra. note 5*

## **2.7 Form of agreement: General or specific?**

Culture affects the form of the written agreements. Americans prefer very detailed contracts where all the possible eventualities and risks have been anticipated. This is because the contract is governed by law. In contrast the Chinese prefer a more general agreement as the foundation of the contract lies in the relationship between the parties.<sup>12</sup> Thus a detailed agreement is proof of a lack of trust between the parties. If unforeseen problems arise, the Chinese would rather choose negotiation or mediation to resolve the matter compared to litigation, which is America's preferred choice.

## **2.8 Building an agreement: Bottom up or top down?**

Some cultures tend to start negotiating on general principles and then proceed to details, i.e. bottom up approach or the inductive process. In contrast, others prefer to first obtain agreements on specific details such as price and delivery dates and merge all the details to arrive at the final contract, i.e. a top down approach or the deductive process. The Americans prefer the deductive process and tend to seek an agreement on details whilst the Chinese prefer the bottom up approach.

## **2.9 Team Organization: One leader or Group Consensus?**

Cultural values greatly influence how a negotiation team is organised and the decision making power and process. Some cultures give more importance to individuals whilst others to the group. The Americans prefer a one-person leadership in negotiations i.e. the leader of the team will have full decision making power. On the contrary, the Chinese prefer a large negotiating team as authority rests with the group and decision-making takes place through consensus. As a result it is difficult to identify who has the decision making power. The foreign parties do not only negotiate with their counterpart but also indirectly with the other stakeholders such as the local authorities and government.<sup>13</sup> It is to be noted that in China, the real decision makers rarely take part in negotiations; as a result, the negotiation process can take longer. This reflects significance of hierarchy and interdependency in the Chinese culture which stems from Confucianism.<sup>14</sup>

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<sup>12</sup> *Ibid.*

<sup>13</sup> *Supra.* note 8

<sup>14</sup> *Supra.* note 4

### 2.10 Risk taking: High or low?

It is observed that some cultures are more risk averse than others. This influences the behaviour of the negotiating counterparts whether they will reveal information and how they deal with uncertainties. According to a survey, both the Americans and the Chinese consider themselves risk takers.<sup>15</sup> Americans usually are associated with a tendency to take more risks. The Chinese on the other hand place a great emphasis on gathering large amounts of background information and they have a complex group decision-making process.

### 3. CONCLUSION

In international business negotiations, it is important to learn about the counterparts' culture and thus ameliorate the problems that can arise in the course of the negotiations. From this study, we can see that there are marked differences in the American and Chinese negotiation styles which stem from cultural differences among the two countries. Knowledge of these differences will enable negotiators understand the negotiation behaviour of their counterparts with a view to making negotiations proceed with more ease. However, it is also important not to allow cultural stereotypes to determine the relationships with the potential business partners. This is because individuals may have their own distinct culture which does not always mirror the country's perceived culture.

**Table: Summary of American and Chinese Culture and Styles Negotiating Styles<sup>16</sup>**

American	Chinese
<b>The basic cultural values and ways of thinking</b>	
Individualist	collectivist
Egalitarian	hierarchical
information oriented	relationship oriented
reductionist	holistic
sequential	circular

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<sup>15</sup> *Supra.* note 3

<sup>16</sup> *Supra.* note 1



seeks the truth	seeks the way
the argument culture	the haggling culture
<b>How they approach the negotiation process</b>	
<b>Non task sounding</b>	
quick meetings	long courting process
informal	formal
make cold calls	draw on intermediaries
<b>information exchange</b>	
full authority	limited authority
direct	indirect
proposals first	explanations first
<b>means of persuasion</b>	
aggressive	questioning
impatient	enduring
<b>terms of agreement</b>	
forging a "good deal"	forging a long term relationship

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