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Cultural Notes on Chinese Negotiating Behavior

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" He who knows his enemy and himself well will not be defeated easily."

- Sun Tzu, Art of War

Western businesses negotiating with Chinese firms face many challenges, from initiating and smoothing communication to establishing long-lasting relationships and mutual trust, and from bargaining and drafting agreements to securing their implementation. Chinese negotiators can be at once warm hosts and friends and tough bargainers. Unique Chinese cultural elements such as complicated local etiquette, obscured decision-making processes, and heavy reliance on interpersonal relationships instead of legal instruments all add to the complexities of Sino-foreign business negotiations, and can make the process tiresome and protracted. Besides talking past each other, Chinese and western negotiators often harbor mutually unfavorable perceptions. Many westerners find Chinese negotiators to be inefficient, indirect, and even dishonest; Chinese negotiators frequently perceive their western counterparts to be aggressive, impersonal, and insincere. The way to decipher the Chinese negotiating style and bring about mutually beneficial results is to better understand the key elements of Chinese culture to which Chinese negotiators attune their business mentality and manners.

Cultural Roots of Chinese Business Negotiating Style

China has been undergoing rapid political, economic, and social change since the early 20th century. Its cultural heritage, *guo qing* (i.e. "special national circumstances" caused by frequent institutional and political turnovers), and international exposure/exchange are three intertwined and interacting factors (**Exhibit 1**) that have been the major determinants of Chinese business culture and negotiating style.

First, traditional Chinese philosophies—largely Confucianism, Taoism, and war stratagems—that have governed Chinese society for two thousand years remain the core value system in Chinese business behavior today. They are manifested in such well-known characteristics of Chinese business negotiation as patience (a famous Confucian virtue), an orientation towards harmonious relationships (a fundamental concept of Taoism), and survival instinct (a motivation of war stratagems).

Second, China's contemporary *guo qing* has greatly affected the way business is conducted between Chinese and foreign firms. For instance, one element of China's *guo qing* is lack of economic and social development due to foreign invasions and exploitation in the late 19th and early 20th centuries, and the military and political movements that ensued. Humiliation and trauma disposed the Chinese to deeply distrust foreigners, with the result that today Chinese businesses employ with foreigners hard, win-lose bargaining tactics motivated by nationalistic emotions. The Chinese deem it time for affluent westerners to pay back their ancestors' debts. The backwardness occasioned by externally stifled economic and social development, on the other hand, generated a strong sense of urgency among Chinese leaders to catch up in science and technology, which accounts for the insistence of Chinese negotiators on technology transfer from western companies.

Third, Chinese business has become increasingly integrated into the international business arena long dominated by the West, thanks to the country's two decades long open-door policy. Its transition to the rules of the game on the global stage has been hastened by an influx of foreign direct investment, adoption of cutting-edge technological and management know-how, and the return of overseas talent numbering in the tens of thousands of individuals. Chinese negotiators' exposure to increasing opportunities to learn international practices and sharpen their skills through cross-border deals has resulted in growing similarity in the business styles of western businesspeople and young, under-40 Chinese entrepreneurs.

The impacts of these three factors on the negotiating mentality and behavior of Chinese businesspeople are examined below.

Confucianism, Taoism, and War Stratagems – The Backbone of Chinese Business Culture

Confucianism, a form of moral ethics and practical doctrine of interpersonal relationships, encompasses from the perspective of negotiation six core values: moral cultivation; importance of interpersonal relationships; family orientation; respect for seniority and hierarchy; pursuit of harmony and avoidance of conflict; and the concept of face.¹

Taoism emphasizes creativity of life and harmony with nature.² Conceptually, it posits as the key to life, finding the *Tao*, that is, "the Way," meaning the general law of nature,³ between two changing forces *Yin and Yang*, the negative and the positive, of the same phenomenon,⁴ through *Wu Wei*, which translates as "actionless activity," "to act without acting," "noninterference," or "lettinggo," which is to say, by finding a middle ground or compromise.⁵ It is the practice of the law of the unity of opposites.⁶ Both Taoism and Confucianism are less concerned with truth finding than with finding "the way that works."

Over the past two thousand years, Confucianism and Taoism have shaped the design of China's political, educational, and economic systems, and influenced the behavioral and thinking patterns of the Chinese people.

a) The Focus on Relationships

The central theme of Confucianism is relationships, in particular, interpersonal relationships. In the eyes of the Chinese people, any relationship between businesses is ultimately built upon relationships between individuals. As a Swedish businessman once observed:

Business in China is not about doing business between organizations, but about doing business between people. . . . Your successor does not automatically inherit your friends and relationships. As I perceive, Chinese do business with you, not with your company. You can't be blue-eyed and believe that you have made friends through one or two deals. It takes a little more time.⁸

Westerners tend to view interpersonal relationships as important, but not prerequisite, to business relationships. In the West, relationships often grow out of business deals, whereas in China business deals usually grow out of relationships. Moreover, westerners are inclined to observe a clear dichotomy between professional and personal relationships, whereas the Chinese make no such distinction and rely on interpersonal contact to resolve business issues. Such different approaches often generate culture clashes during Sino-foreign negotiations. For example, emissaries of a foreign company engaged by their Chinese hosts in extensive social activities in an effort to establish a warm relationship before initiating important business discussions are likely to view these pre-negotiation, relationship-building efforts as excessive and unproductive, and even to be annoyed frequent inquiries about personal issues or requests for favors. The Chinese, for their part, will be unhappy with the impatient and impersonal response to what the westerners' perceive to be disregard for the value of their time.

Chinese people usually acknowledge two types of relationships, warm friendship, and impersonal, "arms-length" relationships. Friendship is a privilege accorded insiders. Outsiders, or strangers, are held to arms-length relationships to which a distinct set of ethical standards applies. Chinese negotiators generally send an inviting signal by calling their newly-met foreign counterparts "old-friend." If this flattering salutation does not resonate with the foreign party, the Chinese assume their counterparts to be unwilling to commit to (and so not to deserve) an interdependent, reciprocal friendship, and thus feel no hesitation about pursuing tough, win-lose negotiations.

b) Reliance on Moral Influence over Legal Practice

The emphasis of the Chinese on interpersonal relationships and *Ren Zhi* (i.e., rule by people) is logically correlated with Confucius's disregard of legal systems. ¹⁰ Confucianism holds that law does not eradicate problems, that people's behavior can be effectively influenced by a set of self-regulating moral mechanisms, for example, by *li* (ritual propriety, etiquette, and so forth) and by instilling "a sense of shame" in people. In Sino-foreign negotiations, Chinese negotiators will typically try to identify among their counterparts those who are more sympathetic to China, build friendships with them, and use them as interlocutors for information and side influence. ¹¹ Foreigners who consider themselves "friends" will feel a sense of guilt if they fail to satisfy the requests of their Chinese counterparts and try to make it up to them at a later time.

Although China today has a sophisticated, institutionalized legal system, people still largely rely on public denouncement of wrongdoing or unethical behavior to protect themselves. Because law in Chinese culture has always been equated with trouble, coercion, tyranny, and lack of trust, it continues to be treated as a less effective means of influencing behavior, as reflected in an aversion to relying on legal instruments during business negotiations.¹² It was common in Chinese society for agreements to be sealed with only an oral commitment, nod of the head, or handshake.¹³ Lawyers are seldom involved in the negotiation process in Chinese business, and when they are brought in by Chinese negotiators it is usually at later stages of negotiation or just before the contract is to be signed. This practice contrasts sharply with the western approach, in which a coterie of black-suited lawyers plays an active (if not blocking) role from the very beginning.

Even in business disputes, the Chinese usually face strong social pressure to settle through third-party mediation or behind-the-scenes deals and rather than resort to lawsuits. Foreign parties should thus not be surprised if their Chinese counterparts insist on inking the following term in the final agreement: "If a dispute occurs, both parties should try to resolve it through consultation and mediation before pursuing arbitration and litigation."

c) Respect for Hierarchy and Expectation of Reciprocity

Hierarchy, interdependence, and reciprocity are the key features of Confucianism's five interpersonal relationships (relationships between: ruler and people being ruled, father and son, husband and wife, elder and younger siblings, and seniors and juniors). Failure to honor these characteristics can jeopardize interpersonal relationships as well as mutual trust among negotiating parties.

In group settings, in particular, the Chinese pay much more attention than westerners to hierarchy. Hierarchy is reflected in the way Chinese people address and greet each other, who speaks during meetings, and how decisions are made. A western manager who enters a room in which several Chinese hosts are waiting might naturally shake hands with each of them, starting with the person closest to the door. If that person happened to be a low ranking member of the Chinese team (which most of the time would be the case), the leader of the Chinese team, who would most likely be standing in the middle of the room, would lose face. Similarly, whereas western managers might perceive it to express the closeness of the relationship, addressing senior members of a Chinese team by name, without their formal title, in front of the entire group, would be considered highly impolite.

The high expectations of the Chinese regarding reciprocity in business interactions grows out of Confucius' well-known admonition: "Do not do unto others what you do not want others to do unto you." The Chinese use the term *guanxi* to refer to trust-based, reciprocal personal relationships. In traditional Chinese families, family members, whether immediate or extended, are mutually obligated to help one another. As society evolves, the concept of "family" is gradually extended to people who share a commonality of identities, for example, schoolmates, fellow villagers, and old friends. This tradition morally obligates one to improve the welfare of less fortunate relatives and friends through one's influence and contacts. In business, *guanxi* is regarded as a form of long-term social investment in dealings with both internal and external stakeholders whereby business is grounded in personal mutual trust and favors are extended on the basis of expected reciprocity. Such relationships are person-specific and cannot be transferred.

d) Face-saving

Social standing, called *lian* or "face" in Chinese society, is critical to the achievement of wealth and power. Face involves both prestige and public standing. Failure to follow Confucius' moral code in business will lead to public disapproval, a powerful force that can negatively affect both aspects of face, jeopardizing prestige and, by impugning character, capability, and personal integrity, which is to say, reputation, jeopardizing as well the comfort and convenience that attends respectability. Face can also be diminished by criticism, intentional or unintentional, which is why it is always difficult for Chinese to accept the "constructive criticism" approach frequently adopted by westerners during public presentations and discussions.

c) Trust and Ethics

Western cultures often perceive their ethical norms to be universally applicable, and consequently categorically view deception as evil. But in neo-Taoist societies such as China, Japan and Korea, in which ethical duties are viewed as contextual, the motives for it and existing relationships can sometimes render deception virtuous. With respect to market research, for example, western companies' practice of directly querying consumers or suppliers and expecting honest responses is problematic in China. In the absence of pre-existing relationships, there is little social pressure on consumers or suppliers to respond honestly to western-style market research, indeed, they might be under considerable social pressure to deceive market researchers. Neo-Taoist ethics imply that Chinese respondents who deceive solely to harm researchers act evilly, but respondents who deceive to promote employers' or friends' interests act honorably.¹⁶

Moreover, being heavily influenced by Sun Tzu's "art of war" and other historical war scenarios, the Chinese regard as ethical behavior the use of stratagems for handling hostile opponents or outsiders. Chinese literature is replete with heroic tales that describe and, by implication, encourage deception when dealing with, particularly more powerful, hostile opponents. Different interpretations of what is ethical under different circumstances constitute one of the many amorphous societal intersections that are the bane of negotiators.¹⁷

Low trust is not merely the byproduct of the numerous social turbulences (such as the Cultural Revolution) in contemporary Chinese history, but has been documented in China for thousands of years. During the "Warring States" period (402-221 B.C.), for example, trust among states was ensured by such rituals as the exchange of hostages through marriage, exchange of hostage populations and territory, and exchange of spies (modern day attachés).¹⁸

Trust building in the Chinese context is a delicate and time-consuming process. Modern examples of historical variations on the use of hostages to engender trust might be a foreign party demonstrating long-term commitment by locating an office or purchasing real estate in China. Western companies might start the trust-building process by providing as references highly respected companies known to be trusted by the Chinese. The western negotiators will then need to cultivate three images that are crucial to transforming a preliminary working relationship into a truly cooperative one that will yield a fruitful outcome. The first, that of a polite, respectful individual, involves giving face to high-status Chinese officials and avoiding any hint of condescension. The second image is that of a sincere, trustworthy negotiator, the third, that of a caring friend. Caring friends understand their Chinese counterparts' organizational and personal needs and express an interest in their families and in establishing a long-term relationship. Western business people who substantiate the caring friend image win trust from the Chinese and realize tremendous tangible benefits for their businesses. One westerner who bought medicine in Europe for a Chinese business friend, and another who sponsored a Chinese friend's children to study in the United States, both claim to be able to conduct business smoothly in China because they have *guanxi*.

Guo Qing – The Milieu in which Chinese Business Culture Evolved

Contemporary China exhibits many characteristics quite distinct from those of its semi-isolated, self-sufficient society that inhabited the landmass before the 20th century. The elements and dynamism injected into the maturing Chinese business culture by that changed environment — notably, a centrally controlled political system with socialistic market economy, multilayered

governance of business, and the dominance of state-owned enterprises — are collectively given the name *guo qing*.

a) Centrally Controlled Political System with "Socialistic" Market Economy

China is a socialist country that has been heavily influenced since the founding of the new China in 1949 by Soviet-style governance. Communism backed by Marxism-Leninism and Maoism is its political ideology, the Communist Party of China its ruling party, and government's central planning and macro-control system its economic engine. Confucianism is confined mainly to the realms of culture and philosophy and was almost overturned by the Cultural Revolution. Frequent political movement and pervasive Communism influence in government administration, business operation, and daily social lives before 1980s make the Chinese very risk-averse and political sensitive. As the result, pursuing political righteousness is always an important factor in Chinese businesses' considerations when dealing with foreign firms. One common example in Sino-foreign joint venture negotiation would be the contradict views between the Chinese and the foreign party on whether the Communist Party should have its political leadership over joint venture's business operation.

Under the label of "socialism with Chinese characteristics" and Deng Xiaoping's famous "white-cat-and-black-cat-who-get-the-mice-is-the-good-cat" philosophy, China has been taking a capitalist approach to transform its central planned economy towards a free market one. Though such approach perceived to contradict Communist doctrine and has occasioned considerable internal debate, this shift has successfully created a much more flexible environment in which business can develop and thrive, and liberated, to some degree, business behavior.

b) Multilayered Governance of Business

Albeit reformed, China's planned economic system retains a fairly rigid, hierarchical administrative structure. Chinese companies operate under various combinations of local, provincial, and central government authority. These authorities, because borders between them are sharply delineated and many compete with one another for resources and regulatory protection, are given to conflicting interpretations of rules and regulations, and companies that engage in business dealings that cross these borders are apt to run into trouble. ²¹ This governance structure gives rise to numerous potential or invisible stakeholders in Chinese companies, and can have a significant impact on the decision-making process in Sino-foreign business negotiations. Foreigners frequently complain that government interference introduces bureaucracy to business decision-making, and the involvement of officials / political appointee delays business negotiations.

Another impact of the multilayered governance can be reflected through the way how negotiation is structured. A foreign team does not only negotiate with its Chinese counterpart but indirectly with other parties such as the local authorities and government. On the Chinese side, usually the real decision-maker does not directly participate to the negotiation, but to listen to what was said during the negotiation from his/her proxies -- colleagues or subordinates in the field. Before dictating the answers back to his/her proxies, the decision maker would normally consult with other invisible stakeholders or authorities to solicit internal consensus or compromises. By remaining behind the scene, decision-makers can effectively protect themselves from being exposed to the turbulence of the negotiation and any possible risk of loss of face during the highly conflicting episodes. In China, negotiation is rather conceived as an "art d'exécution" (applied art) than as an activity done by a high level executive.²²

The multilayer governance in Chinese business environment created overlapping jurisdictions of the various government authorities that issue them. The numerous administrative measures and regulations that function as de facto laws sometimes contradict one another. Contradictions and ambiguities are interpreted in a way that achieves the immediate policy objectives of the party and the government. The experimental nature of reform in China, moreover, renders laws subject to constant change, characterized by Deng Xiaoping as "crossing the river by feeling the stones underfoot." Such dynamism in China's legal system stirs challenges in contract implementation and law enforcement, driving Chinese businesses to be governed less by the legalistic concept of contracts than by the moralistic notion of sincerity and trust. It is not surprise that Chinese business people consequently continue to rely primarily on ethical and moral principles in their dealings with one another, ²⁴ even there are all kinds of legal instruments available. In Chinese society, reputation, credibility, and moralistic virtue tend to trump law as a means of guarantee and protection.

c) The Dominance of State-Owned Enterprises

The challenge of the dynamism of privatization notwithstanding, state-owned businesses remain the pillar of Chinese industry and enjoy continued support from the government. The state ownership system generated personal consumption funded by the liberal expense accounts of employees of ministries, the armed forces, schools, state owned enterprises, and other organizations on the order of US \$16.6 billion in 1994.²⁵ State-owned enterprises (SOEs) are not purely market driven or profit oriented, in fact, are a major vehicle by which the government provides employment opportunities and maintains social stability in local communities. Western managers negotiating joint ventures with the managers of SOEs often recall being surprised to discover that their Chinese counterparts put broad social and political issues associated with the enterprise ahead of the economic agenda. In dealings with state-owned or state-related businesses, government is often the "invisible hand" that manipulates the negotiation process and political considerations and nuances the forces that guide managers' behavior.

Adoption of International Best Practices – Reform of Chinese Business Culture

China has since the 1980s, following Deng Xiaoping's open door policy, become increasingly integrated into the world economy and international politics, and gradually relaxed its social and ideological controls. China is today flooded with commercial pop cultures, and western technology, values, and lifestyle have opened the door to materialism and influenced the mentality and behavior of the Chinese. Some aspects of this western exposure have left their footprint specifically on Chinese business culture.

a) Efficiency-Oriented Control

To stimulate rapid economic growth and foster controlled competition among regions, bureaucratic divisions, organizations, and individuals, China's central government has to some degree delegated to local government decision-making authority over both the domestic economy and the foreign sector. This policy of limited decentralization has afforded enterprises greater latitude and flexibility in the management and operation of their businesses.

b) Materialistic World View

Today's Chinese are more capitalist- and less ideology-oriented than were the Chinese of Mao's time. The effectiveness of Deng Xiaoping's "white-cat-and-black-cat" theory in improving China's economy to some degree legitimized a belief in getting rich by whatever means that is manifested in a booming private sector heavily populated by small and medium-sized entrepreneurial enterprises. Foreigners are often "struck by the spread of a grasping, money-seeking mentality that was a far cry from the 'serve the people' sloganeering of the previous period, or even what passes for normal, competitive business ethics in the West." This shifting mentality is reflected in a more pragmatic, results-driven approach to business negotiations. But excessive pragmatism will naturally lead westerners to perceive the Chinese to have a different "code of ethics." Recalled a trade broker who represented a Chinese company in its bid for an ocean liner:

"I represented a shipyard in Guangdong Province to buy an old ocean liner retired by Norway. I made a successful bid for them only to find out that they did not have sufficient funds to cover the bid. I eventually had to arrange the financing for them. I later found out that, in order to win the bid, the shipyard was less than truthful about its financial and manufacturing capacities." ²⁷

c) Awareness of International Business Rules and Cultural Differences

Following China's admission to the WTO in 2000, Chinese businesses began making the adjustments needed to gain and sustain competitive advantage under international business rules. Influenced by western concepts, Chinese business norms are becoming more mainstream, and the many Chinese exposed to international practices and cultural diversity through travel abroad and attendance at western universities have become more experienced, professional, and mature negotiators, able, having shed their old Middle Kingdom mentality, to generate more creative business options.

Chinese business people are increasingly able to communicate effectively in English, and becoming more receptive to the "arms-length" professional style of doing business. Especially among the more technically competent officials, or technocrats, who attach greater importance to economic performance, "nonpersonal factors, such as product, technology, and financing are becoming more important than personal and cultural factors."²⁸

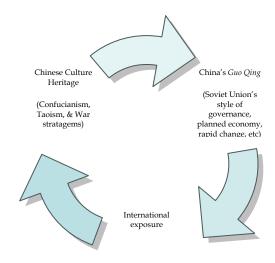
Summary

Chinese business negotiations nevertheless continue to be heavily influenced by the people-centric philosophies of Confucius and Lao Tzu, and their core values of collectivism, honor, respect, obedience, and harmonious relationships. China's unique *guo qing* adds another layer of complexity to negotiating behavior by shaping the decision-making process politically and setting the tone for doing business with foreigners. The western business practices admitted through China's open door have paved the way for smoother communication during business negotiations, albeit sometimes constrained by conflicting concepts or values.

Given the vastness of its territory, ethnic diversity, and fast pace of change, China's business culture is not at all times and in all places the same. Its evolution during this transition period is dynamic, and any stereotype of "the" Chinese business culture that portrays it as static or homogenous will be misleading. Chinese business culture should instead be seen as a meld of

modern western ideas and traditional Chinese values rife with paradoxes: a superficial western framework erected on deep-rooted Confucian values, economic performance goals compromised by people-centric ideology and a tradition of social responsibility, short-sighted practices that belie long-term vision, a belief in pragmatism that would trump appreciation for moral principles, a promising, but uncertain, future.

Exhibit 1 Cultural Roots of Chinese Business Negotiating Behavior



¹ Tony Fang, Chinese Business Negotiation Style (Thousand Oaks, CA: Sage Publications, 1999), p. 109.

² Tony Fang, "Culture as a Driving Force for Interfirm Adaptation: A Chinese Case," *Industrial Marketing Management* (Issue 30, 2001): 53.

³ Fang, Chinese Business Negotiation Style, p. 29.

⁴ Ibid., 31.

⁵ Ibid., 32.

⁶ Huang Quanyu, Joseph Leonard, and Cheng Tong, *Business Decision Making in China* (Binghamton, NY: International Business Press, 1997), p. 283.

⁷ John L. Graham and N. Mark Lam, "The Chinese Negotiation," Harvard Business Review (October 2003): 84.

⁸ Fang, Chinese Business Negotiation Style, p. 235.

⁹ Wilfried R. Vanhonacker, "Guanxi Networks in China," The China Business Review (May/June 2004): 49.

¹⁰ Fang, Chinese Business Negotiation Style, p. 118.

¹¹ Richard Solomon, Chinese Negotiating Behavior: Pursuing Interests Through "Old Friends" (United States Institute of Peace Press, July 1999).

¹² Fang, Chinese Business Negotiation Style, p. 111.

¹³ Lucian W. Pye, Chinese Negotiating Style (New York, NY: Ouorum Books, 1992), p. 24.

¹⁴ Ibid., 118.

- ¹⁵ Alfred D. Wilhelm, *The Chinese Negotiating Table* (National Defense University Press, Washington, DC, 1994), p. 32.
- ¹⁶ George T. Haley, Usha C. V. Haley, and Chin Tiong Tan, *The Chinese Tao of Business: The Logic of Successful Business Strategy* (John Wiley & Sons, Asia Pte Ltd, Singapore, 2004), p. 132.
 - ¹⁷ Wilhelm, The Chinese Negotiating Table, p. 59.
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 - ²⁰ Ibid.
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 - ²³ Wilhelm, The Chinese Negotiating Table, p. 85.
 - ²⁴ Pye, Chinese Negotiating Style, p. 23.
- ²⁵ Rick Yan, "To Reach China's Consumers: Adapt to Guo Qing," *Harvard Business Review* (September-October 1994).
- ²⁶ J. Frankenstein, "Toward the Year 2000: Some Strategic Speculations about International Business in China," in L. Kelley and O. Shenkar (Eds.), *International Business in China* (London: Routledge).
 - ²⁷ Chen. "Successful Sino-Western Business Negotiation."
 - ²⁸ Fang, Chinese Business Negotiation Style, p. 100.