

Negotiation: the Chinese style

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Abstract

Purpose – To examine the nature of Chinese business negotiating style in Sino-Western business negotiations in business-to-business markets involving large industrial projects from a social cultural point of view.

Design/methodology/approach – A conceptual approach developed from personal interviews.

Findings – This study reveals that the Chinese negotiator does not possess an absolute negotiating style but rather embraces a mixture of different roles together: “Maoist bureaucrat in learning”, “Confucian gentleman”, and “Sun Tzu-like strategist”. The Chinese negotiating strategy is essentially a combination of cooperation and competition (termed as the “coop-comp” negotiation strategy in this study). Trust is the ultimate indicator of Chinese negotiating propensities and role choices.

Research limitations/implications – The focus of this study is on Chinese negotiating style shown in large B2B negotiations with Chinese SOEs.

Originality/value – Differing from most other studies on Chinese negotiating style which tend to depict the Chinese negotiator as either sincere or deceptive, this study points out that there exists an intrinsic paradox in Chinese negotiating style which reflects the Yin Yang thinking. The Chinese negotiator has a cultural capacity to negotiate both sincerely and deceptively and he/she changes coping strategies according to situation and context, all depending on the level of trust between negotiating partners.

Keywords China, National cultures, Negotiating, Management skills, International business

Paper type Research paper

An executive summary for managers can be found at the end of this article.

The People’s Republic of China (PRC) has emerged as one of the most dynamic elements in the global economy (Lardy, 2002; Nolan, 2001; Panitchpakdi and Clifford, 2002). During the 1990s, US\$300 billion foreign direct investment (FDI) went to China. In 2002, China overtook the USA as the world’s largest FDI recipient (*China Daily*, 2003; Kyngé, 2003). In 2003, the FDIs in China have increased by US\$53.5 billion in 2003. Today, some 500,000 foreign-invested enterprises including more than 400 large companies of *Fortune* 500 with numerous large projects and establishments are now operating in China, now known as “the workshop of the world” (Roberts and Kyngé, 2003; Chandler, 2003).

Despite enormous Western interests in China, China remains a dream for many western companies (Studwell, 2002). One potentially pitfall that often jeopardizes Sino-Western commercial relationships is negotiation (Faure, 1998, 2000; Frankenstein, 1986; Lewis, 1995; MacDougall, 1980; Stone, 1992). A survey of Western companies trading with China has shown that Western managers considered negotiation strategy the no. 1 success factor for trading relationships with the PRC (Martin and Larsen, 1999). Indeed, negotiation is a fact of Chinese life. Understanding of how the Chinese negotiate has both theoretical and practical values (Pye, 1982; Tung, 1982).

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China in the B2B marketing literature

The B2B marketing literature with the European-pioneered IMP paradigm at its core (e.g. Ford, 2002; Gemünden *et al.*, 1997; Håkansson, 1982; Håkansson and Snehota, 1990, 1995; Möller and Wilson, 1995; Naudé and Turnbull, 1998; Turnbull and Valla, 1986) has made tremendous contribution to theory building in marketing. IMP’s commitment to marketing as interaction, relationships and networks has awakened the mind of management to the significance of interfirm relationships in understanding business markets.

Despite its enormous achievement in theory building, IMP has been found to have dealt with “less and less international themes” (Gemünden, 1997, p. 9). In particular, culture, which is often referred to as “the business of international business” (Hofstede, 1994), seems to have been ignored in the IMP paradigm (Fang, 2001). This is an enigma given the business preoccupation with a rapidly expanding global market place. By doing less international and culture-related research, IMP could be accused of losing touch with the real business reality (Fang and Kriz). If we put people and relationship in focus – the hallmark of the IMP mission – we have to face up to the reality that culture always exists in the background through its fundamental impact on the behavior of people who are at the centre of business relationships.

More importantly, despite China’s growing importance in the global business landscape, China-oriented B2B studies are extremely underdeveloped. Among the existing China-related B2B studies, Björkman and Kock (1995) pointed out the importance of relationship and networks building in the PRC business environment based on their investigations of Western firms in China. They also found that Chinese government is an important player in the process of key business ventures in China. Fang (2001) studied the scenarios of interfirm

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adaptations during a series of complex shipbuilding negotiations between Chinese supplier (shipyard), Western buyers (ship owners) and classification societies. These studies have revealed the Chinese way of doing business as interpersonal-oriented, reciprocal, tactical, and network-embedded.

Surprisingly, although titles about how the Chinese way of doing business appear from time to time in various popular magazines and academic literature (e.g., Blackman, 1997; Chen, 2001, 1995; Davidson, 1987; Faure, 1998, 2000; Pye, 1982, 1992; Graham and Lam, 2003; Shi and Wright, 2001; Tung, 1982, 1989), there has been no major work that deals with how the Chinese negotiate in business-to-business markets involving large industrial projects. Such projects have important consequences not only for China but also for Western firms' long-term reputations in the market. Large projects are complicated as a variety of actors, activities and resources including the Chinese government are involved and bureaucratic processes are to be dealt with.

The lack of in-depth understanding of Chinese business negotiating style and how to do business with the Chinese in B2B contexts may have contributed to the phenomenon that despite more than two decades of dedication by the IMP to relationship and networks far too many Western managers are still failing to manage business relationships in the Chinese-culture dominated markets (Björkman and Kock, 1995; Tung and Worm, 2001; Yeung and Tung, 1996).

About this study

The purpose of this study is to explore the nature of Chinese business negotiating style in Sino-Western business negotiations in business-to-business markets involving large industrial projects from a social cultural point of view. The central question to be answered is: What is Chinese business negotiating style? Other relevant issues to be addressed include: What is the philosophical foundation of Chinese behavior? What are the main components of Chinese business culture? What is the nature of Chinese negotiation strategy? What are the major managerial implications for doing business more effectively in China?

There are two basic approaches to the study of cultures: emic (culture-specific) and etic (culture-general) (Triandis, 1994). This study uses an emic approach to analyze Chinese business negotiating style. In other words, the study aims at penetrating the idiosyncratic nature of China's sociocultural traits to seek explanations of Chinese business negotiating behaviors rather than using the established etic "dimensions" to frame these behaviors.

The study is based on the author's investigation of large Swedish corporations' business negotiations in China since 1994. Sweden has more large companies per head of population than any other country in the world (Birkinshaw, 2002). Sweden is also the home country for a number of world-class multinational corporations, such as Ericsson, ABB, Volvo, Saab, Electrolux, Atlas-Copco, Sandvik, Tetra Pak, Alfa-Laval, SKF, and IKEA. In 2003, China passed Japan as Sweden's largest commercial partner in Asia. Some 220 Swedish firms with more than 300 establishments are active in various Chinese industries ranging from telecommunications, automobile, power generation, pulp & paper, to banking, management consulting, and home furnishing.

The empirical objects (companies and interviewees) were selected purposely. Eighty-three (83) personal interviews were

conducted (61 "Swedish negotiators" and 22 "Chinese negotiators"). The Swedish companies involved in the research represent those very active Swedish companies that sell large industrial goods and/or undertake technology transfer to China in various industries. The Chinese organizations involved in this research are the Swedish companies' Chinese negotiating partners (e.g. local and national industrial corporations and the relevant Chinese government agencies).

The Chinese negotiator: a paradoxical personality

Reality has painted a picture of the Chinese negotiator as bewilderingly complex. I have met Western business executives who recalled their wonderful time in China. They said they loved to negotiate and work with the Chinese and were captivated by the harmonious Chinese style of negotiating. To them, the Chinese are sincere business gentlemen who worked at a very high level of mutual trust and respect. I have also talked to many other Western businesspeople. They narrated a very different story about China and said they hated to negotiate and work with the Chinese and were fed up with the tricky Chinese style of negotiating. In their eyes, the Chinese are "immoral" businesspeople who can "cheat", "lie", or do whatever is necessary to knock you off balance.

I was struck by this contradictory picture and was myself very much a part of this Chinese phenomenon some years ago. The Chinese negotiator is both a sincere and a deceptive negotiator. Unfortunately no previous studies provided a coherent framework to understand, systematically, the paradoxical personality of the Chinese negotiator.

Although complex, Chinese negotiating style is not unfathomable. The key lies in an in-depth systematic understanding of Chinese business culture. I own much of my inspiration to study Chinese business negotiating style to my previous life as a naval architect and seaman. One may marvel at the magnificent sight of the collection of ships sailing across the sparkling blue sea, wondering how anybody can design and operate such wonderful works, from meter-long small yachts to large tankers weighing hundreds of thousands of deadweight tons.

Though complex, all vessels are, nonetheless, built to a technical specification that merely consists of three parts: deck, engine, electric parts. In the shipping industry, "deck," "engine," and "electric" are also the professional terms that define the work of crews: The deck department is responsible for navigating and operating the vessel, the engine department is responsible for providing the propulsion for the vessel and maintaining all on-board machinery equipment, and the electric department is responsible for supplying the electricity and furnishing all electric and radio communications for the operation of the vessel. A vessel is essentially a system in which deck, engine, and electric parts cannot be missing if the vessel is to be a vessel because each has its distinctive function; all three parts, however, are interrelated and interact with each other for the well-being of the entire vessel to navigate safely toward its destination. Having once been a seaman sailing from China to the West and vice versa under various conditions, I luckily derived a useful perspective from the sea: what are the deck, engine, and electric parts of life? Embarking on my research on Chinese business negotiating style, I asked myself: what are the deck, engine, and electric components of Chinese business culture and negotiating style?

Professor Lucian W. Pye (1986, p. 74), the pioneer of the field of Chinese business negotiation studies, observes:

The Chinese may be less developed in technology and industrial organization than we, but *for centuries* [italics added] they have known few peers in the subtle art of negotiating. When measured against the effort and skill the Chinese bring to the bargaining table, American executives fall short.

The Chinese style of negotiating is, therefore, not a recent invention but comes from Chinese culture and tradition. To understand the nature of Chinese negotiating style, we need to look at the philosophical foundation of Chinese thought and study Chinese business culture.

Philosophical foundation

Chinese culture has been molded by three philosophical traditions – Confucianism, Taoism, and Buddhism. Briefly, Confucianism deals with human relationship, Taoism deals with life in harmony with nature, and Buddhism deals with people's immortal world. For the Chinese, Confucianism, Taoism, and Buddhism are philosophies rather than religions. Chinese people are less concerned with religion than other peoples are (Fung, 1966). Lee (1995, p. 12) describes the Chinese capacity to follow different philosophical teachings at the same time “a wonderful way of life” which makes the Chinese “intensely practical”:

This is a wonderful way of life which some Westerners cannot understand – how can a person follow the teachings of three teachers who have always been regarded by many Western and even Chinese writers as the founders of the three religions of China – Confucianism, Taoism and Buddhism? The fact is they are not religions, and that is why the Chinese can follow all three teachings, each for one aspect of his life. This foundation of Chinese culture has made the Chinese intensely practical . . . and given them great power for absorbing all things that are good and beneficial, irrespective of their origin. Chinese culture has survived and has been enriched by this power.

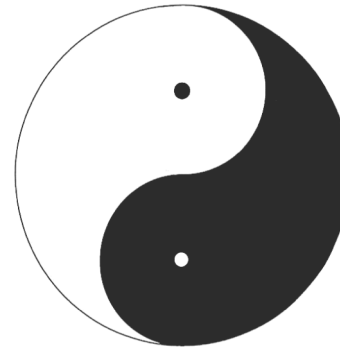
In this research, Confucianism and Taoism, the two indigenous Chinese philosophies are singled out as the foundation of Chinese thought. Buddhism, which was “imported” to China from India around the first century, especially the Buddhist doctrine of “reincarnation” has enabled many Chinese to endure hardship, suffering and other vicissitudes in life and to look forward to a better life. The Chinese capacity to endure hardship and look to a better future, however, can also be well explained from the Yin Yang principle.

Yin Yang

Yin Yang is a Taoist philosophical principle of dualism, a cosmic symbol of primordial unity and harmony. The Yin Yang image, probably the best-known symbol in the East Asia (Cooper, 1990), is illustrated in a circle being equally divided by a curved line forming the black and white areas (see Figure 1). Yin represents female elements such as the moon, night, water, weakness, darkness, mystery, softness, passivity, etc., while Yang, male elements such as the sun, day, fire, strength, brightness, clearness, hardness, activity, etc. Yin and Yang are not the two absolute opposing forces but rather the paired nature of everything in existence in the universe.

More significantly, there is a dot of black in the white, and a dot of white in the black. The Yin Yang principle suggests that there exists neither absolute black nor absolute white. Opposites contain within them the seeds of the other and together form a dynamic unity (Chen, 2001). Yin and Yang depend on each other, exist within each other, give birth to each other, and succeed each other at different points in time.

Figure 1 The Yin Yang principle



In other words, every universal phenomenon embraces both Yin and Yang, embraces both the black and the white, and embraces contradiction, paradox and change. Yin and Yang are complementary if life is to be created, maintained, and developed in a harmonious way.

The reversion of Yin and Yang, love and hatred, good and bad, fortune and misfortune is well illustrated by the Chinese proverb *Sai weng shi ma an zhi fei fu* (“The old man has lost his horse but who knows if this is a misfortune”). Behind the proverb is the story about the “old man” and his “horse” (Cooper, 1990, p. 39):

[T]he poor old man . . . lived with his son in a ruined fort at the top of a hill. He owned a horse which strayed off one day, whereupon the neighbors came to offer sympathy at his loss. “What makes you suppose that this is misfortune?” the old man asked. Later the horse returned accompanied by several wild horses and this time the neighbors came to congratulate him on his good luck. “What makes you think this is good luck?” he enquired. Having a number of horses now available, the son took to riding and, as a result, broke his leg. Once more the neighbors rallied round to express sympathy and once again the old man asked how they could know that this was misfortune. Then the next year war broke out and because he was lame the son was exempt from going to the war.

The Yin Yang philosophy offers a dialectic worldview, a paradoxical yet balanced approach to life. It is the philosophical foundation that empowers Chinese people to follow different teachings and behave differently under different circumstances. This is key to understanding the paradoxical and intensely flexible Chinese style of negotiating.

Chinese business culture

The dynamics of Chinese business negotiating style is driven by Chinese business culture. I define Chinese business culture as consisting of three fundamental components: the PRC condition, Confucianism, and Chinese stratagems.

The PRC condition

The PRC condition (*Guoqing*) refers to the distinctive characteristics of contemporary social political system and conditions of the People's Republic of China (PRC). The PRC condition involves variables such as Chinese politics, China's socialist planned economic system, legal framework, technology development, great size, backwardness and uneven development, and rapid change (Campbell and Adlington, 1988; Child, 1990, 1994; Hsiao et al., 1990; Lockett, 1988; Porter, 1996). The central theme under the PRC condition is Chinese bureaucracy, characterized by centralized decision making, internal bargaining, bureaucratic red tape, and quick learning in the age of reform. In the light of dramatic transformations of Chinese society the diversity

and changing aspects of the PRC condition such as regional variation, the rise of non-state sectors, and the emergence of a new generation of Chinese managers warrant more attention.

Confucianism

Confucianism (*Rujia*) is a fundamental philosophical tradition that has shaped Chinese culture for 2500 years. Confucius (551-479 BC), a native of Qufu, Shandong province, is the founder of this philosophy. Confucianism is a form of moral ethic and a practical philosophy of human relationships and conduct (Tu, 1984). It includes six basic values (Bond and Hwang, 1986; Child and Markoczy, 1993; Hofstede and Bond, 1988; Lockett, 1988; Redding, 1990; Shenkar and Ronen, 1987; Tan, 1990; Tu, 1984): Moral cultivation, importance of interpersonal relationships (concepts of trust, *guanxi*, *renqing*, and *li*), family orientation, respect for age and hierarchy, avoidance of conflict and need for harmony, and concept of face.

Chinese stratagem

The Chinese stratagem (*Ji*) is a strategic component in Chinese culture (Chen, 1995; Chu, 1991; Faure, 1998; Mun, 1990; Tung, 1994). A Chinese proverb "The marketplace is a battlefield" reflects a deep-seated Chinese belief that the wisdom that guides the general commander in the battlefield is the same one that applies to business (Chu, 1991). Sun Tzu's *Art of War* is the best introduction to the strategic Chinese thinking, or Chinese stratagems. Another widely read text is *The Thirty-Six Stratagems* which has crystallized the Chinese nation's wisdom in dealing with enemies and overcoming difficult and dangerous situations (von Senger, 1991). Inherent in all Chinese stratagems or "trickeries" lies Sun Tzu's (1982, p. 77) admonition: "To win one hundred victories in one hundred battles is not the acme of skill. To subdue the enemy without fighting is the acme of skill." Chinese stratagems assert the superiority of using human wisdom and indirect means rather than resorting to direct pitched battle to cope with various situations and to gain advantages over the opponent. The Chinese negotiator will typically not force you into accepting the Chinese terms but rather signals that your competitors are waiting next door prepared to present a better offer! All Chinese stratagems used by the Chinese negotiator at the negotiation table (see list below) find their philosophical origins in the Yin Yang and Wu Wei ("do nothing") principles.

The 36 Chinese stratagems (*Jis*):

- Ji* 1 Cross the sea without Heaven's knowledge (*Man Tian Guo Hai*)
Deceive the Emperor ("Heaven") into sailing across the sea by inviting him into a seaside city which is in reality a huge camouflaged ship. Hide the deepest secrets in the most obvious situations.
- Ji* 2 Besiege Wei to rescue Zhao (*Wei Wei Jiu Zhao*)
Save the state of Zhao by besieging the state of Wei, whose troops are out attacking Zhao. Avoid the strong to attack the weak.
- Ji* 3 Kill with a borrowed knife (*Jie Dao Sha Ren*)
Make use of external resources for one's own gain.
- Ji* 4 Await leisurely the exhausted enemy (*Yi Yi Dai Lao*)
Relax and preserve your strength while watching the enemy exhaust himself.
- Ji* 5 Loot a burning house (*Chen Huo Da Jie*)
Take advantage of the opponent's trouble or crisis.
- Ji* 6 Clamor in the east but attack in the west (*Sheng Dong Ji Xi*)
Devise a feint eastward but launch an attack westward.

- Ji* 7 Create something out of nothing (*Wu Zhong Sheng You*)
Make the unreal seem real. Gain advantage by conjuring illusion.
- Ji* 8 Openly repair the walkway but secretly march to Chen Cang (*An Du Chen Cang*)
Play overt, predictable, and public maneuvers (the walkway) against covert, surprising, and secretive ones (Chen Cang).
- Ji* 9 Watch the fire burning from across the river (*Ge An Guan Huo*)
Master the art of delay. Wait for favorable conditions to emerge.
- Ji* 10 Hide a knife in a smile (*Xiao Li Cang Dao*)
Hide a strong will under a compliant appearance, win the opponent's trust and act only after his guard is down.
- Ji* 11 Let the plum tree wither in place of the peach tree (*Li Dai Tao Jiang*)
Make a small sacrifice in order to gain a major profit.
- Ji* 12 Lead away a goat in passing (*Shun Shou Qian Yang*)
Take advantage of opportunities when they appear.
- Ji* 13 Beat the grass to startle the snake (*Da Cao Jing She*)
Use direct or indirect warning and agitation.
- Ji* 14 Borrow a corpse to return the soul (*Jie Shi Huan Hun*)
According to popular Chinese myth, the spirit of a deceased may find reincarnation. Revive something "dead" by decorating or expressing it in a new face.
- Ji* 15 Lure the tiger to leave the mountains (*Diao Hu Li Shan*)
Draw the opponent out of his natural environment from which his source of power comes to make him more vulnerable to attack.
- Ji* 16 In order to capture, first let it go (*Yu Qin Gu Zong*)
The enemy should be given room to retreat so that he is not forced to act out of desperation.
- Ji* 17 Toss out a brick to attract a piece of jade (*Pao Zhuan Yin Yu*)
Trade something of minor value for something of major value in exchange.
- Ji* 18 To capture bandits, first capture the ringleader (*Qin Zei Qin Wang*)
Deal with the most important issues first.
- Ji* 19 Remove the firewood from under the cooking pot (*Fu Di Chou Xin*)
Avoid confronting your opponent's strong points and remove the source of his strength.
- Ji* 20 Muddle the water to catch the fish (*Hun Shui Mo Yu*)
Take advantage of the opponent's inability to resist when they are put in a difficult and complicated situation.
- Ji* 21 The golden cicada sheds its shell (*Jin Chan Tuo Qiao*)
Create an illusion by appearing to present the original "shape" to the opponent while secretly withdrawing the real "body" from danger.
- Ji* 22 Shut the door to catch the thief (*Guan Men Zhuo Zei*)
Create a favorable enveloping environment to encircle the opponent and close off all his escape routes.
- Ji* 23 Befriend the distant states while attacking the nearby ones (*Yuan Jiao Jin Gong*)
Deal with the "enemies" one by one. After the neighboring state is conquered, one can then attack the distant state.
- Ji* 24 Borrow the road to conquer Guo (*Jia Dao Fa Guo*)
Deal with the enemies one by one. Use the nearby state as a springboard to reach the distant state. Then remove the nearby state.

- Ji 25* Steal the beams and change the pillars (*Tou Liang Huan Zhu*)
In a broader sense the stratagem refers to the use of various replacement tactics to achieve one's masked purposes.
- Ji 26* Point at the mulberry tree but curse the locust tree (*Zhi Sang Ma Huai*)
Convey one's intention, opinions in an indirect way.
- Ji 27* Play a sober-minded fool (*Jia Chi Bu Dian*)
Hide one's ambition in order to win by total surprise.
- Ji 28* Lure the enemy onto the roof, then take away the ladder (*Shang Wu Chou Ti*)
Lure the enemy into a trap and then cut off his escape route.
- Ji 29* Flowers bloom in the tree (*Shu Shang Kai Hua*)
One can decorate a flowerless tree with lifelike yet artificial flowers attached to it, so that it looks like a tree capable of bearing flowers. One who lacks internal strength may resort to external forces to achieve his goal.
- Ji 30* The guest becomes the host (*Fan Ke Wei Zhu*)
Turn one's defensive and passive position to an offensive and active one.
- Ji 31* The beautiful woman stratagem (*Mei Ren Ji*)
Use women, temptation and espionage to overpower the enemy; Attach importance to espionage, intelligence and information collecting.
- Ji 32* The empty city stratagem (*Kong Cheng Ji*)
If you have absolutely no means of defense for your city and you openly display this vulnerable situation to your suspicious enemy by just opening the city gate, he is likely to assume the opposite. A deliberate display of weakness can conceal the true vulnerability and thus confuse the enemy. The stratagem can also be used to mean something with a grand exterior but a void interior.
- Ji 33* The counter-espionage stratagem (*Fan Jian Ji*)
When the enemy's spy is detected, do not "beat the grass to startle the snake, but furnish him with false information to sow discord in his camp. Maintain high intelligence and alertness.
- Ji 34* The self-torture stratagem (*Ku Rou Ji*)
Display one's own suffering in order to win sympathy from others.
- Ji 35* The stratagem of interrelated stratagems (*Lian Huan Ji*)
A stratagem combining various stratagems into one interconnected arrangement. Deliberately planning a series of stratagems.
- Ji 36* Running away is the best stratagem (*Zou Wei Shang Ji*)
Run away, when all else fails. Put up with temporary disgrace and losses to win ultimate victory. Running away to gain more bargaining power.

To sum up, the PRC condition is a changing force whereas Confucianism and Chinese stratagems are enduring forces driving Chinese business negotiating behaviors and tactics. Using shipping terminology, I call the PRC condition the deck, Confucianism the engine, and Chinese stratagems the electric parts of Chinese business culture. Together, these three different and often contradictory forces interact with each other to shape a dynamic Chinese negotiating style.

What is Chinese business negotiating style?

The core finding of this study reveals that: the Chinese negotiator is a blend of Maoist bureaucrat in learning, Confucian gentleman[1], and Sun Tzu-like strategist. I would

like to emphasize that it is this "three-in-one" Chinese style that makes Chinese business negotiating style unique; it is this "three-in-one" Chinese style that perplexes many Western businesspeople in dealings with the PRC.

"Maoist bureaucrat in learning"

As a Maoist bureaucrat, the Chinese negotiator follows his government's plans for doing business. He gives first priority to China's national interest and never separates business from politics. He avoids taking initiatives, shuns responsibility, fears criticism, and has no final say. He lacked international business experience but is currently moving quickly upward on the steep learning curve. He is a shrewd and tough negotiator because he is trained daily in Chinese bureaucracy in which bargaining is an integrated element (Davidson, 1987; Frankenstein, 1986; Lieberthal and Oksenberg, 1986; Pye, 1982). His negotiating style can be "militant" given Mao's doctrine: "A revolution is not a dinner party." He is the most "elusive" or "inscrutable" negotiator because of the changing nature of the PRC condition. His negotiation strategy comes naturally from his old culture, which can be called a mix of Confucian-style cooperation and Sun Tzu-style competition.

"Confucian gentleman"

Being a Confucian gentleman, the Chinese negotiator behaves on the basis of mutual trust and benefit, seeking cooperation and "win-win" solutions for everybody to succeed. He places high value on trust and sincerity on his own part and that of the other party as a human being. For him, cultivation of righteousness is far more important than the pursuit of profit. He shows a profound capacity to conclude business without negotiating. He simply does not like the word "negotiation"; he prefers to use the words "talk" or "discuss" (as a matter of fact, the Mandarin words for negotiation is *Tan Pan*, which literally translates as "Talk" and "Judge") because the Western notion of "negotiation" suggests somewhat disagreeable connotations of conflict, which must be avoided at all costs. He is reluctant to involve lawyers in face-to-face discussions. He is well mannered and generous; a mere handshake or exchange of business cards can signify a lifelong commitment. He views contracting essentially as an ongoing relationship or problem-solving process rather than a one-off legal package (Deverge, 1986; Kindel, 1990; Seligman, 1990; Shenkar and Ronen, 1987; Withane, 1992). He associates business with *guanxi*, friendship, and trust. He is group-oriented, self-restrained, conscious of face, age, hierarchy, and etiquette, and suspicious of "non-family" persons. He can be a daunting negotiator, for example, when he revisits old issues in the light of a changing market situation to seek mutual benefits for both parties and when he bargains toughly in the interests of his "family." His negotiation strategy is characterized basically by cooperation.

"Sun Tzu-like strategist"

As a Sun Tzu-like strategist, the Chinese negotiator sees negotiation as a "zero-sum game" and the marketplace as a battlefield (Chiao, 1981; Chu, 1991, 1992; Mun, 1990; Pye, 1982; Tung, 1994). He sets out to "win-lose" you. He never stops bargaining. He is a skillful negotiator, endowed with a formidable variety of Chinese stratagems from his ancestors. At the heart of his bargaining technique lies Sun Tzu's secret: "To subdue the enemy without fighting." He seldom wages a physical war; rather, he is keen on a psychological wrestling of wit to manipulate you into doing business his way. His actions

tend to be deceitful and indirect. He often creates favorable situations to attain his objectives by utilizing external forces. His most favored negotiating tactic is “Kill with a borrowed knife” (see stratagem 3, *Ji* list). He is always ready to withdraw from the bargaining table when all else fails, but this is only a Chinese stratagem for fighting back (Chiao, 1981). The general pattern of his negotiating tactics is compared to that of *Tai Chi* – a “soft” form of Chinese martial art (*Kung Fu*). *Tai Chi* is often perceived as water; nothing is as weak as water. When water advances, however, attacking something hard or resistant, then nothing withstands it. By the same token, the Sun Tzu-like strategist adopts apparently soft but essentially tough tactics in negotiations. His negotiation strategy is characterized by competition.

The metaphor that the Chinese negotiator is a blend of Maoist bureaucrat in learning, Confucian gentleman, and Sun Tzu-like strategist broadens our perspectives to predict and analyze Chinese negotiating style. For example, the Chinese negotiator (in whatever businesses and in whatever Chinese societies, mainland or overseas) can play and integrate two diametrically different roles: “Confucian gentleman” and “Sun Tzu-like strategist” following two different rules of the game: He values face when doing business as gentlemen, but “thick face and black heart” (suggesting “faceless,” “merciless,” Chu, 1992) when doing business as strategists. The Chinese negotiator is also a Maoist bureaucrat, especially in large business-to-business (B2B) project negotiations, and particularly so when the “Beijing wind” changes. However, the Maoist bureaucrat is learning very fast in international business with a more and more open style, as a consequence of the ever-growing interactions between China and the West.

The “coop-comp” Chinese negotiation strategy

Western negotiation theory provides two generic negotiation strategies: cooperation and competition. The former is often referred to as a win-win strategy, whereas the latter is considered a win-lose strategy. The conventional negotiation wisdom tends to describe negotiation strategy as either win-win or win-lose, either cooperation or competition. This study shows that cooperation and competition – the two generic Western negotiation strategies – find their Oriental counterparts in the traditional Chinese culture: Win-win (Confucianism) and win-lose (Chinese stratagems) components both exist in the traditional Chinese culture driving the Chinese business psyche.

The Chinese negotiator uses both the Confucian-type cooperation strategy and the Sun Tzu-type competition strategy in negotiations – a strategic mix which I call the “coop-comp” Chinese negotiation strategy. The term coop-comp suggests that Chinese negotiators can negotiate both cooperatively and competitively because they are driven by cultural traits of both cooperative and competitive qualities. This explains why the Chinese negotiation strategy is often described in the literature as paradoxical, contradictory, strange, and inscrutable; Confucian tradition and Chinese stratagems have bestowed on the Chinese a culturally embedded “coop-comp” strategy with which to negotiate both sincerely and deceptively.

When would the Chinese use the cooperation strategy and when would they use the competition strategy? It depends ultimately on trust between the negotiating parties. This research indicates that the degree of trust in the other party determines the role the Chinese negotiator is going to play.

When mutual trust is high, the Chinese negotiator negotiates as a Confucian gentleman; when mutual trust is low, he manipulates as a Sun Tzu-like strategist! When trust is high, the negotiation process will be relatively smooth, creative win-win solutions will be worked out and the business will be done relatively quickly. When the parties do not have any relationships (e.g. when foreign negotiators are strangers to the Chinese), however, the Chinese feelings of distrust and suspicion will be strong. If the situation is not handled well, the Chinese would most probably use various stratagems to manipulate the foreign party into doing things the Chinese way, and the negotiation is most likely to be circumscribed by a volatile haggling atmosphere.

The Chinese negotiator routinely examines and evaluates the state of *guanxi* and trust between the parties at the outset of negotiation, and then calibrates his negotiation strategies in dealing with the other party based on the Confucian principle of reciprocity. Therefore, it is of strategic importance, on the part of the foreign party, to attempt to create and maintain a genuine *guanxi* and a high degree of trust with its Chinese partner so that negotiations will take place in what I call the “Confucian working domain” in which parties use the cooperation strategy to ensure the maximum win-win for both.

Managerial implications

(1) Send the right team to China

The Chinese negotiating style is flexible, situation-related, and paradoxical in nature. Meeting you for the first time, even the Chinese themselves are not sure which of the three roles they should play; all depends on how you act in your first moves. The frequently heard Chinese phrase “Foreign guests first!” is not just a courtesy invitation but also a strategic consideration. Sending the right team to negotiate in China is therefore vitally important. The status of your team members will directly affect the attitude of the Chinese host organization toward your company. The Chinese would regard it as impolite, feel insulted, and be dubious of your sincerity if you dispatched a young and low-ranking employee to negotiate with them. This most probably will result in the Chinese party also sending a young, low-ranking, no-mandate official to “match” you rather than to negotiate with you. Your team leader should be a person with charismatic charm, a patient personality, credibility, and sufficient authority to make key decisions. You can send an extremely young professional to China provided that you emphasize this person is not every man or woman but a key profile in your company who has the mandate to make decisions on behalf of the company. Technical and financial specialists must always be included on your team to be able to answer technical and financial questions raised by the Chinese counterparts, who are technology and price sensitive. Your lawyer, if participating in face-to-face meetings, should be well versed in Chinese law and government regulations and prepared to negotiate according to both the Chinese “political book” and the international practices. Your Chinese-speaking colleague (native or ethnic Chinese) can be a great asset in bridging cultural and language gaps between the parties if he possesses an agreeable personality, high cultural sensitivity, and good communication skills.

(2) Show political support

The all-pervasive influence of Chinese politics on Chinese business results in the fact that Chinese decision makers tend

to take it for granted that the government is also the “biggest boss” in the West. By recalling their domestic practices and experiences, the Chinese may simply doubt your company’s stability, reliability, and credibility if your government does not support your company. Therefore, it is of crucial importance to show the Chinese the political support and governmental backing behind your China missions when negotiating large industrial high-risk B2B projects in China. Chinese government is an important player in business networks in China (Björkman and Kock (1995) and this study reinforces this point in large industrial project negotiations in China. Large business contracts can be secured and potential problems resolved if leaders of your government and your business community work hand in hand in doing business with China.

(3) Identify real Chinese negotiators

When embarking on a China venture, make sure you know the real Chinese negotiators. Despite the large Chinese team with many participants, the real Chinese negotiators usually are absent from the negotiation room. In large project negotiations those who are actually running and influencing the negotiation tend to be high-ranking officials from the government ministries or commissions or senior executives of the Chinese companies or both. Never miss the chance, if any, to “talk” directly with the top leaders of the Chinese government at central and local levels to gain their personal support and endorsements for your project. By identifying and negotiating with the real Chinese negotiators, you can, as a Chinese proverb states, “get twice the result with half the effort.”

(4) Take a people-oriented approach

The Chinese believe people more than legal packages. The common Western ideal of an effective negotiator – one who has powerful verbal persuasive flair and is always ready to turn to legal proceedings as his first course of action – would be frowned on by his Chinese negotiating partner as superficial, imprudent, and even insincere. The deeply ingrained Confucian aversion to law allows the Chinese to associate law with coercion, troubles, and failure of the relationship and to link lawyers with “troubles”. From the Chinese perspective, the intangible “cooperation spirit” and trust are far more significant than a tangible contract. To negotiate effectively with the Chinese, Western managers need to take a people-oriented approach to negotiation, never expecting one-off legal agreements to bring about the planned outcome. Chinese business negotiation is distinctively people-oriented, and the Chinese do business with you and not with your company. Many firms have killed their negotiations in China before they even got started. “Pre-negotiation” and “social talks” (Remember “negotiation” translates literally in Chinese as “talks” and “make judgment”) often prove to be more important than formal face-to-face negotiation sessions. The importance of social relations and networks is crucial in China (Björkman and Kock (1995). It pays off to cultivate *guanxi* through social activities with a view to further develop deep mutual trust (*xinren*), a kind of social capital (Kumar and Worn, 2003; Nahapiet and Ghoshal, 1998; Tsai and Ghoshal, 1998) in China, even before formal face-to-face interaction commences.

(5) Use local Chinese

Local Chinese nationals are a great asset for your China ventures. A foreign company’s local Chinese employees can

make remarkable contributions to the success of its negotiations with China. China is a “familistic society,” in which trust is high inside and low outside the family border. Chinese negotiations tend to be tough, and the Chinese negotiators tend to haggle “ruthlessly” when negotiations are held between parties who are strangers. Your local Chinese employees will be able to help you penetrate into the Chinese family and establish a trusting relationship with your Chinese customers and suppliers more effectively than would be the case otherwise. Given their cultural and language advantages, local Chinese are extremely valuable in communicating with the Chinese, circumventing Chinese family borders, dealing with Chinese bureaucracy, sensing Chinese stratagems, and formulating counterstrategies. Like in other markets, the success and failure of your long-term footing in China hinges eventually on your ability to recruit and keep the loyal service of a team of talented local Chinese nationals. In the Middle Kingdom, given the Confucian tradition, Chinese loyalty is tricky because it is not a universal notion but a highly reciprocal business, depending on how fair and trustful you are perceived in the eyes of your Chinese partners. A Chinese is your “friend for life” and behaves as a gentleman when you behave as a gentleman; he employs tricks and ploys when you play games. A human resource policy that suggests any distrust of the local Chinese nationals would serve only to make your first-rate Chinese candidates shy away from you. Trusting, motivating, training, and using your local Chinese human resources to help you penetrate the “Invisible Great Wall” and contribute actively to your China market development strategies is an issue of strategic importance if you want to secure a long-standing foothold in the Chinese market.

(6) Maintain a consistent team

Maintaining the same team throughout the negotiation process is an essential means of gaining trust from the Chinese side. The Chinese do business with you as a person and not as a company; your successor does not automatically inherit your friends and relationships. Trust which took time to build up may be undermined overnight if you frequently rotate members of your team. Therefore, it is important to retain a consistent team as much as possible when negotiating with the Chinese, allowing the same persons to deal with each other as long as business continues. This point has an implication for foreign corporations’ expatriate policies. Regular rotation of managers is common among large multinational corporations as a means to train managers and enrich their international experience. This practice, although important in many respects, must be adapted to Chinese business culture. Given its sociocultural characteristics, the China market requires relatively long sojourns of expatriates so that they have time to create a robust working relationship with Chinese partners and customers and secure a firm foothold in the market. Therefore, managers doing business with China should not be withdrawn from their China operations too quickly.

(7) Pad your price culturally

Bargaining is a Chinese way of life, both politically and culturally. If the Chinese are not familiar with your culture and corporate practices, they tend to believe automatically that any price you quote must have some huge “water content” (*shuifen*). Therefore, Chinese negotiators set out automatically to squeeze out the water content. By doing so, a Chinese can not only gain face but also show that he is the

“winner” in front of his superiors. Therefore, it is necessary to pad your price to a culturally reasonable level that allows you to give away some margin to the Chinese to help them gain face and satisfy their bureaucratic needs and wants. Saying this, I do not mean to encourage cheating in negotiation with the Chinese, however. I do encourage you to show your culture to influence the Chinese bargaining propensities. Honesty wins the Chinese heart.

(8) Help your Chinese counterpart

In China, those who make decisions tend not only to be technical people but also bureaucrats. Therefore, it is important to help your Chinese negotiating counterparts get around the bureaucratic obstacles and become less susceptible to any would-be criticism of their dealings with you. You should put yourself in the position of your Chinese partner and devise language and solutions to enable him to have the agreement approved by his superior. You may show the Chinese that the same contractual clauses or conditions have previously been accepted by other Chinese negotiators. Nothing is as reassuring to the Chinese as evidence that other Chinese colleagues agreed to the same or similar contractual provisions, given the notorious Chinese fear of making mistakes. Sometimes your symbolic concessions to produce the atmosphere of reciprocal benefit must be made so that the Chinese negotiators can sell the “package” smoothly within the Chinese bureaucracy. Culturally, the Chinese follow the Confucian principle of reciprocity in handling business relationships. Help your Chinese counterparts and they will come back to help you when your businesses are in trouble, and thereby a win-win negotiation atmosphere is more likely to appear (Fang, 2001).

(9) Invite the Chinese to negotiate abroad

Much has been written about how Westerners should adapt to the Chinese. Western firms can influence the Chinese into doing business the Western style as well. The Chinese are learning fast! Inviting the Chinese to visit your country for some of the negotiating sessions is a rewarding strategy not only for the obvious reasons of cost, time, and strategy but also because your kindness in assisting the Chinese when they travel abroad will not be forgotten by them. On the basis of the *guanxi* principle, it will be reciprocated later. Even if you pay for the trip, the payment would be well worth the cost. A visit to USA, for example, would allow the Chinese to experience the US culture and business ambience. The Chinese, who come from a country in which bargaining is a way of life, would reflect on and probably alter their bargaining strategies. Besides, never miss the chance, if any, to meet and hold courtesy talks with high-ranking Chinese government officials during their visit to your country. Access to high-ranking Chinese officials is far easier in your own country than in China.

(10) Design “8-numbered” products for China

China is known as a “land of etiquette.” Chinese society is shaped by a set of norms, rules, habits, symbols, and moral obligations different from those of Western societies. For example, the number 8 is adored (whereas the number 4 is disfavored) in Chinese culture but means nothing special in the West. A careless unintentional violation of the Chinese codes of etiquette may risk losing business opportunities. Therefore, I use “Design 8-numbered products for China” as a metaphor to enunciate the importance of respecting and learning Chinese sociocultural traits. Your products and

people should avoid a “4-numbered” corporate identity when entering and operating in the Chinese market.

(11) Be patient

“Be patient” is advice so popular that it can be found in almost all books and articles on doing business with China. New with my advice is a systematic approach. Patience is required given the fundamental influence of the PRC condition, Confucianism, and Chinese stratagems on the Chinese business negotiation process. From the perspective of the PRC condition, China is such a large country that problems of various types are bound to crop up. The formidable Chinese bureaucracy often invite marathon negotiations. From the perspective of Confucianism, China is a familistic society in which it takes time to build trust between non-family members. “The Chinese distrust fast talkers who want to make quick deals” (Pye, 1982, p. 92). Remember that “*Kung Fu*” means essentially “time, “efforts, and “hard work” in Chinese. From the vantage point of Chinese stratagems, you must have great patience and perseverance to deal with Chinese stratagems and strategists. Remember that the Chinese character for patience or tolerance means “the edge of a knife mounted on the top of the heart”. By being patient, tolerant, calm, persistent, and honest in dealing with the Chinese, you will eventually win the Chinese heart and trust.

(12) Explode the myth of face

Face is one of the most significant mechanisms in Chinese social psychology. The Chinese are face conscious; they can go to great lengths to avoid saying the word “No”. Experts on Chinese business negotiating style universally advise that you will gain much if you help a Chinese save face, and you will lose more if you do not. This study, however, suggests that respecting Chinese face and never saying “No” to a Chinese is advisable only within the domain of business relations between Confucian gentlemen or in an ideal Confucian working domain, The Chinese negotiators can, paradoxically, be both Confucian gentlemen and Sun Tzu-like strategists. Therefore, the advice that you should never say “No” to a Chinese could be dangerous when it is practiced in front of a Sun Tzu-like Chinese strategist. As one of the cases shows, your reluctance to say “No” can be taken advantage of by the strategist to suggest that you have agreed with the Chinese demand! Therefore, it is strategically important not to be shattered by the Chinese face. You must dare to explode the myth of face.

(13) Approach China as the “United States of China”

With a vast land area of 9.6 million sq.kms, a huge population of 1.3 billion inhabitants, and enormous ethnic, linguistic and subculture variations, China is a huge continent and may be called a “United States of China”. One of the reasons why many Western companies have failed to establish a firm foothold in China is their lack of a “regional approach” to the Chinese market (Cui and Liu, 2000). While various regions in China share common Chinese characteristics we discussed above, they also possess their unique regional features. For example, the business style in Beijing, Shanghai, and Guangdong may be called relational, professional, and entrepreneurial, respectively (Fang, 2005). It is important to segment the Chinese market and plan your China operations in terms of regions. “Think nationally but act regionally” could be a useful admonition for doing business effectively in the PRC.

Note

- 1 In this article, the words “gentleman” and “he” etc. are used for the sake of simplicity; they refer, however, to both genders.

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Executive summary and implications for managers and executives

This summary has been provided to allow managers and executives a rapid appreciation of the content of the article. Those with a particular interest in the topic covered may then read the article in toto to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present.

The Chinese business-negotiating style

China overtook the USA as the world's largest recipient of foreign direct investment in 2002. Some 500,000 foreign-invested enterprises now operate in China. A survey of

Western companies trading with China has shown that Western managers consider negotiation strategy to be the No. 1 success strategy for trading with China. Fang explores, from a social-cultural point of view, the Chinese business negotiating style in Sino-Western negotiations in business-to-business markets involving large industrial projects.

The Chinese negotiator is a mixture of Maoist bureaucrat “in learning”, Confucian gentleman, and strategist. As a Maoist bureaucrat in learning, he or she gives first priority to China’s national interest, never separates business from politics, avoids taking initiatives, shuns responsibility, fears criticism and has no final say. As a Confucian gentleman, the Chinese negotiator behaves on the basis of mutual trust and benefit, avoids conflict at all costs, and seeks “win-win” solutions for everybody to succeed. Meanwhile, the stratagems used by the Chinese negotiator have their philosophical origins in the Yin-Yang and Wu-Wei principles.

The Yin-Yang and Wu-Wei principles

The Yin-Yang principles suggest that there exists neither absolute black nor absolute white. Opposites contain within them the seeds of the other, depend on each other, and succeed each other at different points in time. Yin and Yang are complementary if life is to be created, maintained and developed harmoniously. The Yin-Yang philosophy is key to understanding the paradoxical and intensely flexible Chinese style of negotiating. The Wu-Wei (or “do-nothing”) principle is based on the idea that using wisdom and indirect means to gain advantages over the opponent is superior to resorting to direct pitched battle.

The various elements that feed into the Chinese negotiating style can make it seem paradoxical, contradictory, strange and inscrutable. When mutual trust is high, the negotiating process can be relatively smooth and creative, and can result in lots of “win-win” solutions. But when feelings of distrust and suspicion are strong, the Chinese may appear to be manipulative and the negotiations may descend into volatile haggling.

Managerial implications

Fang highlights the importance for managers of:

- *Sending the right team to China.* The status of the team members a company sends to China will directly affect the attitude of the Chinese host organization toward the company. The team leader should have charisma, patience, credibility and the authority to make decisions. The team should include technical and financial specialists because the Chinese are technology and price-sensitive.
- *Showing political support.* Chinese decision-makers tend to take for granted that the government is the “biggest boss” in Western countries, as it is in China. Companies negotiating large, industrial, high-risk, business-to-business projects in China should therefore highlight the political support and governmental backing behind their missions.

- *Identifying real Chinese negotiators.* The real Chinese negotiators in large projects tend to be high-ranking officials from the Government ministries or commissions, or senior executives of the Chinese companies. But they tend to be absent from the negotiating room. Western companies should never miss a chance to talk directly with the top leaders of the Chinese Government at central and local levels, to gain their endorsement and support.
- *Taking a people-orientated approach.* Social relations and networks are crucially important in China. “Pre-negotiation” and “social” talks often prove to be more important than formal, face-to-face negotiating sessions.
- *Using local Chinese.* High-caliber local Chinese employees can help a company to establish a trusting relationship with its Chinese customers and suppliers, deal effectively with Chinese bureaucracy, sense Chinese strategies and formulate counterstrategies.
- *Maintaining a consistent team.* A company may undermine, by changing its team members, the trust it has built up over a long period of time.
- *Padding one’s price.* The Chinese tend to believe that the first price quoted has “water content”. Chinese negotiators set out automatically to squeeze this out. By doing so, they not only gain face, but also show themselves as “winners” in front of superiors.
- *Helping one’s Chinese counterpart.* Negotiators should help their Chinese counterparts to get around bureaucratic obstacles. Negotiators should devise language and solutions that would enable their Chinese counterparts to have the agreement approved by their superiors. Showing that other Chinese negotiators have agreed to similar contractual provisions can be helpful, given the Chinese fear of making mistakes.
- *Inviting the Chinese to negotiate abroad.* Chinese who are invited abroad to conduct some of the negotiating sessions will rarely forget their hosts’ kindness and, on the basis of the *guanxi* principle, will reciprocate later.
- *Designing “eight-numbered” products for China.* The number eight is adored in China, while the number four is disfavored. Respecting these, and other, socio-cultural traits will be well rewarded.
- *Being patient.* Patience, tolerance, calm, persistence and honesty will help to win the trust of the Chinese.
- *Exploding the myth of face.* The Chinese can go to great lengths to avoid saying “No”. But some Chinese may try to take advantage of a Westerner’s reluctance to say “No” and try to suggest that this means the Westerner has agreed with a Chinese demand. Fang advises Westerners to “dare to explode the myth of face”.
- *Approaching China as the “United States of China”.* While various regions of China share common characteristics, they also possess unique regional features. Western companies need to take a regional approach to the 1.3 billion Chinese market.

(A précis of the article “Negotiation: the Chinese style”. Supplied by Marketing Consultants for Emerald.)