



**BS ritgerð
í viðskiptafræði**

Only devils move along a straight line
A guide for Chinese negotiations

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Póra H Christiansen, aðjúkt

Viðskiptafræðideild

Júní 2014



HÁSKÓLI ÍSLANDS

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Foreword

This paper was written as a BS-degree thesis in Business Administration at University of Iceland and is considered to be 12 (ECTS) credits.

My supervisor was Þóra H Christiansen, adjunct in Business Administration at University of Iceland. I want to thank my supervisor for the cooperation and advices while writing this thesis. Also I want to thank my family for the faith in me always, my colleagues at the University of Iceland for the companionship during the busy semesters but especially I want to thank my spouse for the patience, love and support.

Executive Summary

Negotiation skills are becoming more desirable in the world market as cross-cultural ventures are getting increasingly pervasive. China is a fast growing consumer market that has become the second-largest economy in the world. The purpose of this study is to shine a light upon the appropriate strategies and techniques to be used when negotiating in China. Chinese follow three different types of teachings, Confucianism, Taoism and Buddhism with no complications. Confucianism is a practical philosophy that deals with human relationship, Taoism embraces life in harmony and Buddhism deals with the world of immortality. Theories on cultural dimensions from two famous scholars, Hall and Hofstede show that China is e.g. high-context society where personal relations, context of things and non-verbal behavior are important. Ambiguity is not uncomfortable and they possess a good ability to accept contradictions. The Chinese place emphasis on relationship building when doing business. This is how they measure trust which holds more importance to them than a written contract. One should familiarize with the importance of *guanxi*, have patience and wait for results to come gradually. Every year in China will pay off in the future and old friendships will be of enormous support through time. Chinese negotiation consists of “three-in-one” negotiation style where the Maoist bureaucrat, the Confucian gentleman and Sun Tzu strategies all play an influential part in the process. Contradictions, flexibility, deception and paradoxical approaches all interweave in their negotiation style where the context of things dominates. Avoiding conflict and confrontation is done by compromising and the true decision-makers are usually not present. A visitor must make adequate preparation and practice good manners, respect, and patience if negotiating in China. This is a high-context hierarchy culture so the smallest misconception can have a big impact on the flow of the course. One should expect a time consuming process and understand that the negotiations are not over after a contract gets signed. The younger Chinese generation seems to be moving towards more individualistic approach during negotiation and puts less significance in harmonious relations. They spend more time on the content and technical issues than their elders do. This suggests that the times are changing between generations in China, but slowly.

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1 Introduction

With the world economy becoming more globalized every year new challenges emerge. Increasing interactions between distinct cultures demand better understanding of the impact that these different values can have on the negotiation process. Negotiation skills are becoming more desirable in the world market (Zhenzhong, 2010) as cross-cultural ventures are getting increasingly pervasive (Gelfand, 2000).

China is a remarkable country which has sustained enormous changes in short period of time. Only few decades ago China was one of the poorest countries in the world but since then it has become one the fastest growing consumer markets globally making it the second-largest economy in the world (Zhu, 2012). The pace and scale of China's economic transformation have no historical precedent. China has therefore become extremely attractive for foreigners seeking all sorts of business relationship with the Chinese.

The purpose of this study is to shine a light upon the appropriate strategies and techniques to be used when negotiating in China. Another objective is to gain an insight into Chinese behavior and philosophy with guidance to what to expect, adapt to and avoid in regards to the negotiation process. To understand the way the Chinese prefer to negotiate one need to understand their way of thinking and behavior. After a brief introduction to the People' Republic of China (PRC) this paper will begin by exploring the Chinese culture. Theories on cultural dimensions from Edward Hall and Geert Hofstede will be utilized. By looking into few cultural elements more details will be compiled on what influences their negotiation behaviors. This is an important foundation before moving on to specific behaviors and tactics of the Chinese negotiator. This thesis then provides negotiation guidelines to assist the visitor with the process and a list of few non-desirable behaviors that should be avoided so that the business relationship that's been built won't turn sour. Since most theories used for cultural analyzes are over thirty years old this paper will also conclude by a brief examination on the difference the Chinese negotiation behavior has changed between generations.

2 China

People's Republic of China (PRC) is a huge country with regional subcultures that could easily be differentiated. Hong Kong and Taiwan differs in many aspects to PRC in relation to negotiation but much too often fall into the same category (Volkema, 2011). Therefore this paper will focus on the negotiation process in PRC.

The People's Republic of China operates under the Communist Party of China. Chinese leaders have embraced the Marxism-Leninism ideology influenced by the Soviet Union. Under the political leadership of Mao all organized religion was forbidden but after his passing new leaders have introduced significant reforms in economy of politics. This was the start of China opening itself to more open-market system (Volkema, 2011). A great economic progress has been accomplished in China since it welcomed foreign investments (Zhao, 2000) which have benefited its citizens enormously in the process. China has converted from a typical agricultural economy into an industry- and agricultural driven economy. Such transformations produce social changes among the inhabitants e.g. by increasing internal competition among workers and the need to succeed professionally (Leung K. , 2008).

3 Culture

The definition of country's culture has been defined as the „beliefs, norms, values and behavioral patterns of a national group” (Volkema, 2011). Culture also includes language, religion, education, social structure, economic, politics, morals, art, laws and other practices that a member of a society has acquired. Social behavior and personal interaction are influenced by such values and norms which permeate all societies and control them. Expanding technologies, the internet, economic systems and globalization affect and influence other cultures constantly. This cultural penetration has resulted in kind of cultural contamination which makes it even harder to identify the core in each culture (Torres, 2010). Understanding Chinese culture gives insights to the way a Chinese negotiator might think and act, his ethical code and personality (Jiang, 2012).

3.1 Language

The Chinese language is an important influence on how the world is experienced by filtering what is observed through many types of categories (Faure, 1999). The idiosyncrasy of Chinese has to do with the fact that written words are not sequences of letters but pictures (Graham & Lam, 2003). At young age children learn thousands of pictorial characters and this highly visual nature helps them to see the big picture of things instead of focusing on the details. Their thinking gravitates therefore towards holistic processing of information (Akgunes, Culpepper, & Austin, 2012).

Two paradoxical sub-concepts make up a large number of Chinese concepts e.g. *dongxi* (“things”), where *dong* stands for east and *xi* for west. Another example is the word *weiji* (“crisis”), where *wei* stands for danger and *ji* for opportunity. Everything embraces opposite properties. This is why it could make little sense to Chinese to ask them if they are “masculine”, or “feminine” or “short-term oriented” or “long-term oriented” because their worldview is not “either-or” but rather “both-and” (Faure, 2008). This is what many Westerners would define as a “gray area”, both sophisticated and vague at the same time (Faure, 2000).

3.2 Philosophy

In general the Chinese society is dominated by three philosophical foundations. These are Confucianism, Taoism and Buddhism (Torres, 2010) and influence their sense of morality, thought and behavior (Akgunes, Culpepper, & Austin, 2012).

3.2.1 Confucianism (*Rujia*)

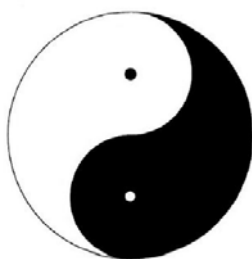
Confucianism is a practical philosophy that deals with human relationship and conduct with moral ethics. It consists of few basic values such as the importance of interpersonal relationship and family, respect for hierarchy and age, the concept of face, moral cultivation and the avoidance of conflict (Fang, 2006).

3.2.2 Taoism

Taoism embraces life in harmony with nature where dualism play an important role as two opposing forces that wok in harmony with each other (Akgunes, Culpepper, & Austin, 2012).

3.2.3 Buddhism

Buddhism deals with the world of immortality (Akgunes, Culpepper, & Austin, 2012) and was “imported” from India in the first century. Its doctrine of “reincarnation” has made it easier for many Chinese to manage suffering and painful challenges and still look forward to better life. This capacity can also be explained in the Yin Yang principle which is a Taoist philosophy that consists of dualism, unity and harmony (Fang, 2006).



Picture 1. Yin and yang (Fang, T., 2006, p.52)

Contradictions and paradoxes shape positive changes and growth and in the Chinese culture they are referred to as the Yin and yang (Torres, 2010). Bound together as a whole and cannot be separated Yin represents the female energy, femininity and is displayed as black, whereas yang stands for masculinity, male energy and is displayed

white. To find the balance between the two forces is considered the key to life, like a middle ground. This is also sometimes called “The Way” and referred to as the Tao. The image indicates that there is no implicit borderline between the two forces and a dot of each one exists in the other (Faure & Fang, 2008). The dot in each part suggests that there is nothing that is absolutely white or black because each one contains a part of the other within itself. Together they form a dynamic unity (Fang, 2006).

These Chinese philosophies are in general more concerned about finding the way rather than searching for the truth in things (Faure, 1999) and because these are not religions the Chinese can follow three different types of teachings and adjust behavior accordingly under different circumstances with no problem. This is essential to understand the flexibility and the paradoxical approaches in the Chinese negotiation style (Fang, 2006).

3.3 Social behavior

Activities in social life are maintained mostly by regulating interpersonal ethics rather than relying on law and enforcement. A great deal of mutual respect is cherished among Chinese people. They all agree upon certain orders and norms in their social activities that constrain the behavior of everyone, in which they call a “reasonable manner”. This means that one should neither be too humble nor too arrogant, like finding a “middle way” of things (Jiang, 2012), after all, Chinese are exceptionally good at managing paradoxes (Faure & Fang, 2008).

3.4 Cultural dimensions

Many researches demonstrate that culture has many different dimensions and due to the complexities and its dynamics it is constantly evolving (Torres, 2010). Understanding cultural dimensions can increase the changes of a successful business interaction in China (Zhao, 2000).

3.4.1 Edward T. Hall

Edward T. Hall, a respected anthropologist and cross-cultural researcher, identified two classic dimensions of culture. His first concept was the high-context and low-context cultures which deal with the way information is communicated and how much is needed to know before it can be communicate effectively. The purpose for his second

concepts, monochronic and polychronic cultures, was to deal with the ways in which cultures structure, perceive and manage time. These concepts can help during cross cultural interactions such as negotiations.

3.4.1.1 *High-context/low-context*

Since the majority of the information that is communicated in China is deduced from the environment (i.e. context) it is considered a high-context culture. In high-context cultures the environment and perceptions of the environment influences people's behavior differently (Zhenzhong Ma, 2010). Each person's place in the society, values, position and interaction with others is far more important than words and formal legalistic constructs (Darling & Heller, 2011). Personal relations, social context of things and non-verbal behavior all become very important to identify during negotiation in China in a high-context culture (Akgunes, Culpepper, & Austin, 2012).

3.4.1.2 *Monochronic/polychronic*

The implicit meaning of time across cultures varies. When events are not sequentially differentiated so that multiple events can be seen as happening simultaneously perception of time of this kind is called "polychronic". The opposite perception is called "monochronic" which separates and sequences events analytically (Macduff, 2006). Chinese do not perceive time as a sum of hours, minutes and seconds (Faure & Fang, 2008) but rather as polychronic i.e. a non-linear and associated with events. They are unlikely to follow a specific schedule but emphasize long-term cooperative relationships (Leung, Chan, Lai, & Ngai, 2011). Because of how time is perceived in China it is good to note that during negotiation they will be willing to sacrifice short term results for the long term goals (Akgunes, Culpepper, & Austin, 2012).

3.4.2 Geert Hofstede

Gerard Hendrik Hofstede, a Dutch social psychologist, conducted a comprehensive study of how values in the workplace are influenced by culture. His model identifies six dimensions which describe the effects of a society's culture on the values of its members, and how these values relate to behavior. Hofstede's attempt to codify national cultures has been used to predict behaviors in each country (Volkema, 2011). These dimensions are still used as benchmark for national cultures studies in organizational settings and are most acknowledge theoretical constructs (Vierregge &

Quick, 2011). All of these dimensions will be analyzed with regard to the People's Republic of China and how each of them is believed to influence the negotiation behavior.

3.4.2.1 *Power distance*

This dimension covers dominance as an ascribed quality (Hofstede, Jonke, & Verwaart, 2012). It expresses the attitude of the culture towards inequalities within the society. Since China rates 80 of 100 the society has a great power distance which means it accepts inequalities amongst people. Authority and sanctions influence individuals and no one should have longings beyond his rank (Hofstede G. , 2001) (Hofstede, Hofstede, & Minkov, 2010). Such a high power distance culture also approves on the inequality of wealth and power in the society (Torres, 2010).

When Chinese are forced to negotiate to a foreigner, of equal status or trade, the negotiations can end in a power struggle. A higher-ranked Chinese negotiator will stress his position by preferring top quality products from his counterpart but when dealing with a lower-ranked visitor he is more willing to accept risk believing that the lower-ranked guest would not dare to deceive him. Traders from large power distance cultures such as China are not familiar to serious negotiation because they are used to let the more powerful dictate the conditions. Likewise a Chinese trader will expect a lower ranked business partner to approve on his conditions. A foreigner coming from an egalitarian culture might not want to give into these conditions reacting by braking-off the negotiations or proposing a counteroffer will only make the Chinese trader furious. On the other hand, if the Chinese trader perceives the visitor to be of higher status, he might concede more than expected which could result in an unfair share in his behalf. If both come from hierarchical culture but misjudge each other's position it could result in one of them being dominant or the other stopping the negotiations. A higher-ranked Chinese seller will insist on the lower-ranked counterpart to buy only high quality product from him but a higher-ranked Chinese buyer will keep enforcing the transactions he requests until he succeeds or the negotiations break-off (Hofstede, Jonke, & Verwaart, 2012).

3.4.2.2 *Individualism/collectivism*

Whether people's self-image is defined in terms of "I" or "we" is the fundamental issue addressed by this dimension. China scores a low 20 out of 100 indicating that people are more group orientated than individualized and therefore must be considered a highly collectivist culture. People belong to "in-groups" that help each other out in exchange for loyalty while "out-groups" are treated impersonally, even with hostile behavior. Personal relationship is more important than the company or task (Hofstede G., 2001) (Hofstede, Hofstede, & Minkov, 2010).

Because of China's collectivism it is advised to negotiate by using a team rather than an individual (Torres, 2010). In this context it is advised to keep the overall harmony, during a business meeting, positive since that can have a decisive effect on the outcome. No contract gets signed before a relationship has been established (Akgunes, Culpepper, & Austin, 2012). The Chinese feel more obligated to concede and trying to maintain harmony to in-group partners than an out-group one. Breaking the rules of this harmony will result in furious reactions or a silent treatment. An in-group partner may expect to receive modest reactions to e.g. proposals than someone labelled as an out-group member (Hofstede, Jonke, & Verwaart, 2012).

3.4.2.3 *Masculinity/ femininity*

This dimension presents the motivating force for wanting to be the best (masculine) or liking what you do (feminine), in other words performance versus cooperation. China scores 66 out of 100 indicating that the society is a bit more masculine, driven by competition, success and achievement. Family and leisure priorities will be sacrificed for professional achievement (Hofstede G., 2001) (Hofstede, Hofstede, & Minkov, 2010). Such societies are considered tough and that punish offenders heavily.

Since China scores 66 out of 100 it is not so far from femininity values and a bit of both qualities can apply. In a masculine culture like China the trader wants top quality commodities but if offers are perceived too far from expectancy the negotiation will be terminated quickly. On the other hand the femininity values suggest that relationship and trustworthiness are more important than quality. This indicates that initial interactions with a trade partner will take time to evolve. A Chinese negotiator would appreciate an equal willingness to accommodate the other over time. The second

negotiation session is seen as a continuation of the previous one whereas the latter can be completed in a much shorter period (Hofstede, Jonke, & Verwaart, 2012).

3.4.2.4 *Uncertainty avoidance*

This dimension is about how to cope with the unknowable and so the main issue in the dimension is to find out to what extent each individual feel threatened by ambiguous or unknown situation. At 30 out of 100 China scores rather low which means that it is rather uncertainty tolerant i.e. ambiguity is not uncomfortable for Chinese citizens and the society is well prepared and adaptable to deal with such anxiety. Laws and rules are flexible to adapt to different situation (Hofstede G., 2001) (Hofstede, Hofstede, & Minkov, 2010). Communication style is relaxed and novel experiences and exploratory behaviors are valued.

This means that a Chinese negotiator is relaxed and willing to adapt to their guest's behavior. They are confident of doing business with strangers and will try to maintain a calm countenance at all cost but won't come to an agreement easily. They will show discontent if their counterparts show too much emotion and will only be as flexible as the other side is willing to be. In case of inadequate progress they will have no problem with breaking-off the negotiations (Hofstede, Jonke, & Verwaart, 2012).

3.4.2.5 *Pragmatism*

This dimension shows how much ability the society has to accept contradictions and the unexplained. China score 87 out of 100 which mean that they are very pragmatic people that believe that truth depends very much on situation, context and time. They don't have the need to explain everything and can adapt to changing circumstances. The important thing is to live a virtuous life and not occupying the mind with finding "The Truth" (Hofstede G., 2001) (Hofstede, Hofstede, & Minkov, 2010).

Chinese like to see the bigger picture during the negotiation process. For them one bargaining case is a small step in a long process. This is why patience is highly regarded by Chinese negotiators (Hofstede, Jonke, & Verwaart, 2012).

3.4.2.6 *Indulgence/restraint*

The ability to control desire and impulses defines this dimension. Low score indicates relatively weak control, "indulgence", whereas strong control is defined as "restraint".

China rates 24 out of 100 which means that the society is rather cynical and pessimistic. Leisure is not regularly exercised and actions are restrained by social norms (Hofstede G., 2001) (Hofstede, Hofstede, & Minkov, 2010).

3.5 Cultural elements

To obtain a deeper understanding on the Chinese culture some cultural elements, related to the process of negotiation with the Chinese, will be identified and explained. To build a business relationship in China it is essential to know about the importance of these elements. This should give even broader spectrum on how to go about when negotiating in China.

3.5.1 *Guanxi* (personal connections)

Guanxi is one of the most important elements in Chinese society and it can take many years to develop and gain adequate *guanxi* (Darling & Heller, 2011). The word means the level of personal connection one has among others. The early part of the word “*guan*” means a gate or even a hurdle, and the latter “*xi*” holds the meaning connections or relationship ties. The word *guanxi* can therefore be translated to “the gate to connection” and indicates the level of personal relationship network the individual has (Leung, Chan, Lai, & Ngai, 2011).

To be labeled as the one that doesn't return favors, loyalty or righteousness (“*wang's en fuyi*”) demolishes and intoxicates all future business for that individual (Graham & Lam, 2003). That is why in China *guanxi* is even regarded as more important than laws for a person (Darling & Heller, 2011) and the one with the best *guanxi* prevails (The Chinese Negotiation). Although *guanxi* is still practiced widely its significance seems to be declining in the developed parts of China. *Guanxi* can be a key when goods and services or information can't be acquired through typical market channels or open competition (Faure & Fang, 2008). This is why who you know is more valuable in China than what you know (Akgunes, Culpepper, & Austin, 2012).

3.5.2 Dark *guanxi*

There is also a dark side of *guanxi* which is referred to as “*giangiuze*” or the “hidden rules”. This is where personal favors take the form of bribes and corruption of all kinds

and is used to get the edge in business, entertainment sectors or even politics (Faure & Fang, 2008).

3.5.3 Renqing and ganqing (favors and human ties)

When managing *guanxi* two important factors are involved, they are *renqing* and *ganqing*. When money, information, goods, status etc. is exchanged for physical or non-physical social favors it is called *renqing*. If *renqing* is to function it needs to become a “burden” or “indebtedness” between *guanxi* members for future exchange of favors. When *guanxi* members form a deep psychological commitment between each other it is called *ganqing*, or “human ties”. *Ganqing* emerges from an accumulation of *renqing* through mutual empathetic understanding, sharing of happiness and affection, like an expressive affiliation (Leung, Chan , Lai, & Ngai, 2011).

3.5.4 Problem-solving attitude

To build *renqing* in negotiation scenarios a problem-solving strategy can play an important part since it associates with higher levels of interpersonal attraction. An individual using problem-solving attitude (PSA) approach tries to maximize the series of alternative solutions as possible. That is done to make sure both sides get optimized outcomes. In such situations it helps progress from a new friend to the old friend phase (Leung, Chan , Lai, & Ngai, 2011).

3.5.5 Xinyong (verbal promise)

Xinyong is a verbal promise, positively influenced by *ganqing* and must be honored to earn personal prestige for business transactions. It indicates the level of ethical candor, trustworthiness, reputation and credibility that is reflected by the individual. The word “*xin*” stands for verbal trust and “*yong*” is the utilization. Those who apply it earn a higher sense of moral excellence which increases with each level gained in the hierarchy rank (Leung, Chan , Lai, & Ngai, 2011).

3.5.6 Renji hexie (interpersonal harmony)

While hierarchy is held together by responsibility and respect, *Renji Hexie* is a friendship held together by equals (Akgunes, Culpepper, & Austin, 2012), like an interpersonal harmony. This includes long dinners, home visits or invitations to events where anything but business is discussed. It is really important to establish enough *renji hexie* before

any attempt to do business. This could take days, weeks or even months (Graham & Lam, 2003).

3.5.7 Old friends (deep personal relationship)

Two old friends are more apt to practice flexibility in terms of transaction rather than to ordain all the terms and conditions. Practicing *renqing* will help establish instrumental ties with Chinese counterparts which will eventually generate *ganqing*. Because of lack of trust in the legal system Chinese businessmen rely on compensatory mechanism called *xinoung* to finish transaction (Leung, Chan, Lai, & Ngai, 2011).

3.5.8 Zhongjian ren (intermediary)

An intermediary, or *zhongjian ren*, can play an important part when establishing business relationship in China because meetings with strangers are usually characterized with suspicion and distrust (Graham & Lam, 2003). He is the one who befriends both parties involved in the negotiations (Akgunes, Culpepper, & Austin, 2012). The intermediary would transmit his *guanxi* to one of his trusted business associates to reach your target executive or organization. Often only he can interpret the flow of the negotiation and the vague messages given from body language, facial expressions during a formal meeting etc. It is also a custom to let the *zhongjian ren* bring up the business issue and settle differences (Graham & Lam, 2003). It is also important that the intermediary can identify the decision maker in the Chinese team (Akgunes, Culpepper, & Austin, 2012).

3.5.9 Face (social status and self-image)

The most meaningful measure of one's social worth is one's "face" which represents a person's place with whom he associates with. There are two aspects of face, the external face (*mianzi*) and the internal face (*lien*).

3.5.9.1 Mianzi (external face)

Person's reputation and social status in Chinese business culture often rests on saving face. Making someone lose face can be disastrous for business negotiations, even if it is unintentional (Graham & Lam, 2003). Similar to money face can be acquired, given, lost or taken away (Faure & Fang, 2008). Face can mirror many various aspects of social life like intelligence, status, skills, position, wealth, appearance or good *guanxi*. Displaying

anger, aggression or frustration at the negotiation table can result in a disaster since it affects everyone to lose their face, even the intermediary (Graham & Lam, 2003). *Mianzi* can be gained by moving up the social hierarchy, through ostentation and even be exchanged for favors. Its dynamics is both horizontal and a vertical.

3.5.9.2 *Horizontal and vertical mianzi*

The practice of giving face to others, saving it or even preventing others from losing it is called horizontal face work. Maintaining *mianzi* is influenced by actions of close associates and therefore not a sole responsibility of individuals. The management of self-image is a self-generated and self-maintained work called the vertical face. Face-work has a great influence on business decisions so its practice becomes strategic (Leung, Chan , Lai, & Ngai, 2011).

3.5.9.3 *Lien (internal face)*

Everyone has two “faces”, i.e. *mianzi* and *lien*. While *mianzi* signifies the external aspect of the “face” *lien* refers to the internal which can either be gained nor lost. It is a sense of guilt that one produces within through misconduct. Individual can’t maintain relationship with others if *lien* is lost because of internal guilt and hurt integrity (Leung, Chan , Lai, & Ngai, 2011).

3.5.10 Gift-giving

When trying to initiate connection with new friend gift-giving can be of great significance because the activity can both give *mianzi* and generate *renqing* with the Chinese counterpart. Gifting is a way of expressing honor and respect and also of showing the gift recipient the value of the relationship. With more guests around when the gift is presented will increase the value of the present by enhancing the receiver’s *mianzi* to his friends. To generate an enduring social relationship appropriate gift-giving is fundamental. Entertainment and other types of likewise non-physical gifts are often considered as more important than physical gifts when building business relationships. Gift-giving must be practiced with caution though because it can easily be conceived as bribery (Leung, Chan , Lai, & Ngai, 2011).

4 The Chinese negotiator

There are many things that come into play when negotiating in China. Therefore it can be of great value to understand the way Chinese perceive the word negotiation, the process and learn about various strategies commonly used by them during the encounter.

4.1 Negotiation (*tan pan*)

Negotiation in China is called "*tan pan*" and the words give an interesting view on how this process appears to them. In Chinese tan means talk and pan means judge, so it literally translates as judge and discuss (Fang, 2006). Negotiation there revolves about trusting the counterpart, making proposals, maintaining friendship, offering concession and avoiding conflicts (Zhao, 2000). This is a complex process attached with emotions and decision-makings (Hofstede, Jonke, & Verwaart, 2012) implied by two or more participants that try to come to a mutual agreement before the actual contract gets signed (Akgunes, Culpepper, & Austin, 2012).

4.2 Wariness of foreigners

From the Chinese perspective foreigners are like savages coming to the center of the world to pay their tribute and should therefore be welcomed and treated accordingly (Faure, 1999). Chinese distinct between in-groups and out-groups members (Gelfand & Dyer, 2000) and foreigners are labeled as out-group members (Sebenius, 2002). Being marked as an out-group member one might expect inappropriate negotiation strategic to be used against him (Rivers & Volkema, 2013).

4.3 Strategies

The core of Chinese style negotiations is to focus on strategies rather than tactics by monitoring the process as a whole and use psychological conviction. To understand each other they sometimes arrange leisure activities and establish their strategy simultaneously (Jiang, 2012).

4.3.1 The 36 stratagems (*Ji*)

These stratagems are part of old folklore and are taught in school, sung in operas, found in literature and even broadcasted in some television programs (Rivers & Volkema, 2013). They consist of six categories, each with its own agenda:

- 1. Stratagems when in a superior position
- 2. Stratagems for confrontation
- 3. Stratagems for attack
- 4. Stratagems for confused situations
- 5. Stratagems for gaining ground
- 6. Stratagems for inferior situations

In each of those six categories are six strategies making them a total of thirty-six military strategies. They encourage the use of indirect means and wisdom to gain advantages rather than direct confrontations. These stratagems have been applied in the fields of e.g. politics, diplomacy and negotiation (Fang - negotiation the Chinese Style)

4.3.1.1 Examples

Few examples that are used during negotiation are like the stratagem 6— “Clamor in the East, attack in the West” (*Shen Dong Ji Xi*) — means that you mislead information about your intentions in order to make your opponent concentrate his defenses on one end and thereby leave another entry vulnerable. Stratagem 7— “Create something out of nothing” (*Wu Zhong Shen You*) — deceptive appearances often conceal some forthcoming dangers. It corresponds to appearing stronger by making something up or giving insincere promises by offering a possible future benefit in return for settlement now. Stratagem 10—“Hide your knife behind a smile” (*Xiao Li Cang Dao*) — indicates that you should conceal your hostility by assuming outward friendliness. In time their guard will lower and you can attack. This can be displayed by using positive emotion. These stratagem are commonly used e.g. in price negotiation. One of the most highly rated tactics among Chinese negotiators are to “provide statistical misrepresentation that supports the case” and then “divert the other party’s attention from the real goal by appearing to move in one particular direction” (Rivers & Volkema, 2013).

4.3.2 *Chiku nailao* (endurance and relentlessness)

The Chinese have a lot of work ethic but they take the assiduity even further with their endurance ability or as they call it *chiku nailao*. To gain success endurance is seen as an honorable and important quality to possess. This is revealed in two ways during the negotiation. Firstly they will have prepared more thoroughly overall and secondly they will be expecting much longer bargaining hours. They will use all sorts of exhausting tactics like late-night business entertainment, jet lag etc. to wear out the counterpart (Graham & Lam, 2003). In order to get concession they manage to prolong each meeting to put the other side at a disadvantage. Other strategies such as defensiveness, cooperation and assertiveness are manipulated to get their way (Zhao, 2000).

4.4 Negotiation styles

The framework consists of sort of “three-in-one” negotiation style (Ghauri & Fang, 2001) where the Maoist bureaucrat, the Confucian gentleman and Sun Tzu strategies all play an influential part in the negotiations process. These are underlying concepts that all work together to form the overall style of the negotiation (Akgunes, Culpepper, & Austin, 2012).

4.4.1 Maoist bureaucrat

The Maoist bureaucrat simply means that the negotiator take into account China’s national interest which indicates that politics interlace into the negotiation process. This is the reason why the negotiator might try to boycott responsibility, avoids taking initiatives, dreads critique and needs approval from higher authority and because of the ever changing nature of the bureaucracy he may also seem elusive and mysterious (Fang, 2006).

4.4.2 The Confucian gentleman

The Confucian gentleman is a person that values mutual trust and seeks a “win-win” solution for all involved. Sincerity is important to him and fairness is appraised higher than pursuing profits. A typical approach for the Confucian gentleman is trying to conclude business without conflicts and he is unwilling to involve lawyers to such circumstances. His view of contracts is more like a way to solve a problem or to build

relationship. *Guanxi* is important to him, family values, face, hierarchy and etiquette. Cooperation is his main negotiation strategy (Fang, 2006).

4.4.3 The Sun Tzu-like strategist

Instead of the “win-win” approach of the Confucian gentleman the Sun Tzu-like strategist strategy approach is a “zero-sum game” i.e. “win-lose” with the aid of the 36 stratagems. His strategy is a physiological manipulation with indirect and deceptive approaches. One of his preferred stratagems is number three “kill with a borrowed knife” (*Jie Dao Sha Ren*) (Fang, 2006).

4.5 Negotiation behaviors

The Chinese use all sorts of behavior and approaches to adapt to the flow of the negotiation. It can be valuable for the visitor to know what might be expected during these kinds of business interactions and prepare accordingly.

4.5.1 Deception

Deception is accepted as an essential element in their everyday life (Rivers & Volkema, 2013). Denial, concealed attacks, masquerade and other tricks are used to test the other side. Destabilization, lies, sudden break-offs, slanders to the counterpart's hierarchy, harassment, attempts to divide the other side etc. are but only few examples that are praised in books like Sunzi, “The Three Kingdoms” or “The 36 Stratagems”. Sometime the Chinese reveal themselves as a bit fuzzy by being passionate at first, then becoming unwilling, alarmed and even petrified. They change strategy very easily (Faure, 2000).

4.5.2 Face

It is always a possibility that the Chinese might be manipulating face to reach their business objectives. To protect “face” is a struggle which numerous times leads up to needless avoiding and compromises during confrontations. In the case where the Chinese have the upper hand they tend to wait and observe how the opposition will react to see if they can display superiority (Ma & Jaeger, 2005).

4.5.3 The balance

The negotiation is perceived as unbalanced circumstances where the visitor should be aware of not treating the Chinese as an equal unless he wants to be perceived as arrogant (Faure, 1999).

4.5.4 Threats

The Chinese negotiator will not force his counterpart to accept his terms but he will give all sorts of signals to indicate that a better offer from a competitor is behind the next door waiting to get the change to present it to him (Fang, 2006). This is referred to as *liangshou zhunbei* (two-handed preparation). For him this should not create any distrust since it's only natural to evaluate all options. This tactic is extracted directly from their haggling culture (Graham & Lam, 2003). His last resort tactic is to back out of the negotiation to indicate to the other side that this is their last chance to come up with a better offer. Competition is his main negotiation strategy (Fang, 2006).

4.5.5 Indirect approach

Since the unsaid prevails in the Chinese society the Chinese negotiator is constantly seeking for a covert meaning of things no matter how unimportant or harmless it might be. This is a recipe for many possible misconceptions and conflicts and it is not unusual that behind each question another one is hidden. This indirect approach to things is one of the most common methods of expression for a cultivated Chinese and sometimes even a vague but fugitive message are sent out that only an intermediary will notice. While it may create numerous problems with constantly decoding what is really occurring, the Chinese respect the zigzag approach because their belief indicates that "only devils move along a straight line" (Faure, 2000). That is why it is essential to adjust to the on-going flowing course of events during the negotiation (Faure, 1999).

4.5.6 Concession

Avoiding conflict and confrontation by compromising are usual behaviors among the Chinese team members (Torres, 2010) but concessions are preferred at the end of the negotiation (Akgunes, Culpepper, & Austin, 2012). The Chinese negotiation members likes to approach all topics and issues at the same time and in no particular order because they believes that nothing is really settled until everything is (Graham & Lam,

2003). This process must be respected and given the time it takes since they believe that the journey towards the goal is more important than the goal itself (Faure, 1999).

4.5.7 The dominant strategy

The level of trust that the Chinese have towards the foreigners will determine the emphasis on which strategy will be dominant. High level of trust will elicit the Confucian gentleman with smooth negotiation and a win-win solution while low level of trust will provoke the Sun Tzu-like strategies and inconstant haggling atmosphere (Fang, 2006). The Chinese are trained to be flexible and act according to the other side's behavior during negotiation but the win-win strategy is recommended (Torres, 2010). Both cooperative and competitive qualities are the Chinese negotiator's main drive. Therefore the Chinese negotiation strategy is sometimes described as paradoxical where the negotiation is both deceptive and sincere (Fang, 2006). If stratagems are being used during the negotiation one may deduce that harmony no longer prevails and the negotiation is most likely not going so well (Akgunes, Culpepper, & Austin, 2012).

4.5.8 Decision-makers

In a hierarchical society like China attention, credit and respect goes to the most experienced one of the eldest. This is always the case and seniority always comes before competence during negotiation (Faure, 2000). The strongest are allowed imposing their ideas freely and such a priori judgments can have a great impact on the whole process (Faure, 1999). The one must be careful before he interprets certain behaviors because in China people in higher authority use more tactful and moderate way of expressing themselves. To refuse or deny others directly to their faces is rare and more likely scenario is to receive a smile followed by a friendly "nod". This can simply mean that he has heard and understands your thoughts. This gesture is often used to encourage the speaker to go on with expressing ideas but it does not mean he has made any agreement on those views (Jiang, 2012). In many cases though the true decision-makers are not even present during the negotiations and probably will never meet the foreign side. This arrangement consists of an old Chinese tradition not to expose the leaders directly to all the turbulent emotions that occur during the negotiation. Since it is required to regularly report to them the Chinese position may become inconsistent in its behavior and sometimes even be deprived of any space to

maneuver (Faure, 2000). This is one way of protecting their face during the highly conflicting episodes (Faure, 1999). Since China is a collectivist nation a kind of balance must be reflected regarding the decision-making especially if the decision might have important consequences (Faure, 2000).

A scenario that could happen would be with a couple of foreign negotiators sitting at one end of a table and fifteen up to thirty Chinese counterparts sitting on the other side (Faure, 1999). It is a classical technique, when the risk is high, of bringing in numerous decision-makers to neutralize the responsibility. This ad hoc committee will examine the case and then make a proper proposal. The use of veto power is usually only used in negative situations. This is a strategy the Chinese apply when a decision that is made is seen favorable to the foreigners side (Faure, 2000). The visitors could therefore have to face another hurdle, the local authorities and government (Rivers & Volkema, 2013). This puts the Chinese side in a double game being both the judge and the jury. The public administration uses time and deadlines to its advantage by delaying them when mandatory and expedite when useful. Sometimes the Chinese side might even exploit these situations by contacting the other team's manager directly to scarify the negotiator's behavior and impeach their adequacy or even their integrity. Another type of two-level game sometimes practiced in China is that the Chinese team might display conciliatory attitude only because it knows that the decision will eventually be rejected afterwards at the administrative approval stage (Faure, 2000).

4.5.9 Failures

If a tone of frustration can be noticed in the Chinese team and a reductive cooperation occurs, failure is almost certain. But the most common failures result in Chinese firm's lack of funding (Akgunes, Culpepper, & Austin, 2012). Things can change quickly to the worse if the relationship is believed to have taken a wrong turn. In such cases the Chinese can become obscure about every small thing in the contract. The Chinese language offers so many interpreting meanings of things that it can easily increase the entanglement to a stage of a never ending negotiation if desired (Faure & Fang, 2008). The negotiation process must therefore be pleasant or it might affect the results (Jiang, 2012).

4.5.10 Revenge

The Chinese team will also take vengeance if they feel that the proposer has been unfair or competitive. This is done by rejecting his offer, even if it is decent and positive, only to punish the individual (Valenzuela, Srivastava, & Lee, 2005).

4.5.11 Written agreement

As important as one might think a written document is in high context cultures like China the entire social context in which surrounds the ritual is the much more important than the legal document (Zhao, 2000). Although the legalized agreement is respected it is also perceived as a contract that can be altered to adjust to different external conditions. Establishing a contract with signature is simply manifesting a relationship, not closing a deal. Negotiation could just as well start all over again the morning after if the Chinese side feels it necessary. The contract will be honored as long as the ones involved respect the business relationship (Faure, 1999). The Chinese also like to keep their options open and they will abandon a deal if a sweeter one opens up. Contracts tend to be short-term, often for a period of five to ten years (Akgunes, Culpepper, & Austin, 2012). Including written details in the contract is not considered important as long as the fundamental issues are clear. While the foreign team requires several hundred pages long contract with technical annexes the Chinese party will go along with few pages. They will settle for a contract with an ethical meaning while the foreigners require more accurate and legal paper. In China laws are seen as a beacon, not compulsory. It is all a matter of a principle of balance (Faure, 2000). Relying too much on a written contract can be view as profound distrust and even hostility but larger companies in China employ legal experts to secure important commercial contracts. This is mostly done because the other company lacks adequate *guanxi* and the legal document must therefore replace that need for protection (Faure & Fang, 2008). Also if the foreign company possesses enough *renji hexie* it means that trust and congruity still exists and the Chinese side would consider reconciliation even if negotiations gets unstable (Graham & Lam, 2003). It should be noted that of all legal documents aside and details agreed upon the ambience of the cooperation that is established during the negotiation is perhaps what is most important (Faure, 2000).

4.5.12 The scope of the deal

It makes a lot of difference how extensive the contract is. Joint venture is a really complex deal that elicits array of different cultures to the negotiation table. On the other hand a simple deal like ordering a thousand pairs of shoes from a supplier will most likely work out just fine without any complication or setbacks (Sheer & Chen, 2003).

5 Negotiation guidelines for the visitor

This chapter provides guidance through the negotiation process from the perspective of the visitor's side. Before entering the complex world of Chinese negotiation the foreigner should make adequate preparation and practice good manners, respect, and patience. This is a high-context hierarchy culture so the smallest misconception can have a big impact on the flow of the course. Personal traits, characteristics and social intelligence can have a huge positive impact on the outcome (Zhenzhong Ma, 2010) so the importance of a competent and gifted negotiator comes as no surprise (Ma & Jaeger, 2005). One should expect a time consuming process and understand that the negotiations are not over after a contract gets signed. Before the chapter ends some recommended behaviors to avoid during the process will be issued.

5.1 Preparation

Before entering into the complex world of high context collectivist culture like China it is significantly important to take time for adequate preparation (Darling & Heller, 2011). Prepare to approach the negotiations as if they were a political debate instead of intellectual discussions. Gain knowledge about the fundamental differences in the cultures to begin with. Also study about the Chinese company's situation, capabilities and intent before entering the negotiation premises. Take into account that this is a vast country with difference in regional areas and traditions, even languages. Excluding knowledge of the regional area going to be visited will limit success rate in one sector but failing in another (Akgunes, Culpepper, & Austin, 2012). Further preparation could include e.g. research of hierarchy structure within Chinese organizations and policies and the time spent on such preparation could take months. Establishing relationship with a loyal Chinese friend within the company can help with the preparation by informing about important changes within the organization and point out decision makers (Sheer & Chen, 2003). It would also be wise to get familiar with and understand the stratagems (Rivers & Volkema, 2013) as well as to understand the element's functions and nurture *guanxi* and *xinyong*. Those two are built upon face work, gifting and the right usage of problem-solving approach (Leung, Chan, Lai, & Ngai, 2011).

5.2 Background check

Before doing business in China one should know the current policy's plans and priorities of the People's Republic of China. It can make a difference to know in which direction the government is focused in regards to economic and social development. The credibility of the Chinese company should also be verified by e.g. examining past dealings with other firms. For the Chinese side it matters that the guests possess a good knowledge of their own governmental regulations (Akgunes, Culpepper, & Austin, 2012).

5.3 Keep things local

It weighs heavily in the Chinese culture to distrust foreigners and be a bit defensive, so to pacify the Chinese wariness it is advised to keep things as local as possible (Akgunes, Culpepper, & Austin, 2012).

5.4 The right team

Before the Chinese decide which negotiation role they should play they will evaluate the way the foreign team acts in their first meeting. They will test the foreigner's team in various ways while evaluating them. Therefore it is vital to choose well which team members to include. Status of each team member is important so sending a low-ranking employee to China will have them doing the same resulting in almost impossible negotiation situation. Preferred team leader should be a charismatic, charming person with credibility, patient and authority to make important decision. It is important to include a financial specialist in the team and a technical in case of questions in that field. If a lawyer is a member he should be familiar in Chinese regulations and laws.

Including a Chinese speaking interpreter is highly recommended but should have a pleasing personality and good communication skills. Once the team has been selected it should not be changed during the negotiation because it would undermine trust which took time to build and as long as business continuous allow the same persons to interact with each other. A successor does not inherit your *guanxi*. Remember that Chinese do business with people, not companies (Fang, 2006).

5.4.1 A cohesive and disciplined team

The team needs to show discipline and cohesiveness. It is important that the team never disagrees with each other openly or at any other location after meetings. The company should point out one designated speaker to talk on behalf of the team and if anyone else has a say during the business meeting they should do so from a script to show company consensus. Chinese are people of few words so saying too much to them can produce damaging results (Akgunes, Culpepper, & Austin, 2012).

5.4.2 Gender of team members

Even though the roles of women are changing it is probably wise not to construct the team with females since Chinese are more likely to be more comfortable to negotiate with preferably older male counterparts (Torres, 2010).

5.5 Harmony

A pleasant atmosphere and harmony during the encounter should be maintained and all unnecessary tension avoided (Akgunes, Culpepper, & Austin, 2012). To help building an image of a cooperative individual one should express kind-heartedness in a strategic manner. The basic idea is that a positive emotion will be viewed positively (Rivers & Volkema, 2013). This can also serve as a cunning way of giving face to the counterpart by using e.g. self-criticism and humor (Faure, 1999).

5.6 Respecting seniority

Adequate respect should be offered to elders Chinese members and authority figures. Since the Chinese highly regard seniority a symbolic visit by one the visitor's top executive can help build trust followed by informal communications or even banquets. In case of large state owned enterprise negotiation, the final negotiator on the visitor's side should only be present until the very end of the process. These are sometimes government officials (Akgunes, Culpepper, & Austin, 2012). Bringing in a much younger negotiator by the guests will be experienced as a lack of respect (Faure, 2000).

5.7 Communication

For optimal communication few preconditions must exist. A shared frame of reference and vocabulary is significant. Being flexible, sensitive and adaptable to verbal and non-

verbal behavior is necessary. State the willingness for both companies to work together (Darling & Heller, 2011). Being blunt can backfire easily, since it can affect the Chinese side to lose face, so one should be gentle and think carefully before being so forthright (Akgunes, Culpepper, & Austin, 2012).

5.8 Pre-negotiation

Social talks are very important to Chinese and even more than the actual negotiations because the Chinese deal with the person not the company (Fang, 2006). Effective initial meeting is essential to establishing potential long term relationship (Torres, 2010). Any requests, to help achieving one's objectives, should be addressed at this stage (Volkema, 2011). If dealing with larger industrial projects lobbying, before meeting with the Chinese government, becomes very important. It is essential to prove to them that the foreign company has advanced suitable technology, will for a long-term commitment and are financially competent (Ghauri & Fang, 2001).

5.9 Image projection

Before the Chinese feel safe to rely on the other side's company the foreigners need to project a trustworthy and reliable image. Professional presentations and technical seminars will work wonders. The visitors should be prepared to do many presentations, answer many questions and even do the same presentations more than once for the same audience (Ghauri & Fang, 2001). There are three impressions recommended to display in front of the Chinese team. Begin by showing your trustworthiness by e.g. associating with respected and well recognized companies or by providing references the Chinese can trust. Also reflect an image of a respectful and a polite person and then last but not least prove to be a caring friend (Sheer & Chen, 2003). Showing the Chinese side that the foreign company has the support and backing of the government give a valuable credibility, stability and reliability. This helps projecting strong reliable image but this is mostly in case of large industrial high-risk projects in China (Fang, 2006).

5.10 Invite for negotiation abroad

Changing the environment and therefore the Chinese surroundings can have a positive effect on the negotiation process. By doing this the Chinese side may change their strategies to your advantage but this is also a change to both show hospitality and gain

trust but it also creates a better access to high-ranking Chinese official (Fang, 2006). This is a great opportunity to establish trust which makes the role of the intermediary essential. He must see off all of the events because he is the one that builds up the connections and introduces the relationship. He sometimes even arranges the appropriate events for these kinds of activities (Akgunes, Culpepper, & Austin, 2012).

5.11 Letter of intent

If the Chinese show strong interest in continuing the discussions the next step is to sign a formal document called “letter of intent”. This letter is sent from the Chinese side to inform the visitors about the combination of the Chinese team members including ideas for future meetings (Ghauri & Fang, 2001). Such letter is essential to open door to more productive negotiation but these letters have not obligation according to the Chinese. The next step is to agree on general principals before moving on to the details. It is important to let this transition, from general to specific, take the time it needs and not rush into it (Akgunes, Culpepper, & Austin, 2012).

5.12 Agreeing on principles

It is a good idea to agree on the principles at the very start. These principles should be to achieve mutual trust and understanding, involve a longing for a long-term relationship and mutual benefit. By doing this first every other issue should be much easier to deal with (Zhao, 2000).

5.13 Gifting

A good way of starting off negotiation is to invite the Chinese team members to expensive restaurants and send them expensive gifts afterwards. This should be followed up by e.g. handing out free samples and include proposals during the pre-negotiation stage. These steps are all part of building the trust that is needed during this phase (Akgunes, Culpepper, & Austin, 2012). But before presenting any gift to the Chinese counterparts the company should make sure that they are within the right frame of ethical approval according to Chinese cultural norms. If the company worries the gift could fall outside the ethical approval zone it can go for a non-monetary gift instead or strengthen its image through community donations. Donations of such kind are highly respected in China and will both increase reputation and political capital. A

Chinese organization is more likely to wanting to associate itself with a company that is community-minded because that is more likely to increase its own social status in China. Another reason why gifting can be so useful is because the one that receives a gift owes the other a *renqing*. Such obligation could serve as a cultural platform for future interactions that could improve the *ganqing* of both parties involved. If all goes well this could progress to an old friend stage (Leung, Chan , Lai, & Ngai, 2011).

5.14 Presentation

Reliable and engaging presentation is an important step in the negotiation process. This is a change to show the Chinese side the company possesses high quality products, advanced technology and reasonable prices. Such presentation is to be expected to be repeated numerous times and even sometimes to the same audience. This is all part of their strategy to check both the determination and reliability of the company (Ghauri & Fang, 2001).

5.15 Questions

It is not always obvious to which member on the Chinese side questions should be diverted to or even which questions to ask. Only particular “why” questions should be asked to a particular individual or it might run the risk of offending some of the Chinese counterparts. To figure this all out some tacit knowledge is required (Akgunes, Culpepper, & Austin, 2012). To ascertain a problem it is better to use open-ended questions and reflect responses to indicate understanding of the situation (Darling & Heller, 2011). A weakness can be exposed by the opponent’s arguments by asking the same questions often like: “I didn’t understand what you meant completely, could you please explain that for me again? “It is obvious that delivery is important to you, could you please remind me again why that is?” (Zhu, Nel, & Bhat, 2006). Also, verify if the understanding of things is correct by using frequent recaps or expressions like “you said that.....and as I understand, you mean that....”; “May I extract our debate as follows... ?” (Zhao, 2000). But since words can have a very specific meaning in low-context culture the exact opposite is true in high-context culture like China, so a real care should be taken into the words chosen (Akgunes, Culpepper, & Austin, 2012). Another way is being indirect by e.g. presenting a problem related to an issue and ask the other party

for an advice or assistance. Such questing might be “May I ask a favor of you?” (Volkema, 2011).

5.16 Intermediary

Credibility can be gained by bringing in an intermediary, especially if he has an in-group relationship with the Chinese team (Volkema, 2011). Using interpreter to give insights to the unspoken language during the negotiation is beneficial. If any “official” has been assigned to the guests the company should nevertheless apply their own precautionary (Akgunes, Culpepper, & Austin, 2012).

5.17 Educate

The company’s preferences, situation and needs should be educated to the Chinese side. Demonstrate how the deal will benefit both sides economically and socially. Also display the strengths and weaknesses of both companies in terms of economic and social value in context of the proposed agreement. Such internal analysis of strengths and weaknesses will increase the likelihood of closing the deal (Akgunes, Culpepper, & Austin, 2012).

5.18 Befriending

Help your Chinese counterpart to overcome a possible bureaucratic obstacle from his superiors by providing e.g. evidences of another Chinese colleagues agreed to similar or same provisions in their contract. They will be in gratitude and try returning the favor when needed (Fang, 2006).

5.19 Price

It should be regarded that price is a difficult part of the whole negotiation process and one of the most sensitive. Instead of directly changing the price it should be attempted to leverage the project with other factors first. These could include delivery time, training, after-sales service referral, intangible value, quantity, warranty, technology, installation and market entrance issues (Zhao, 2000). Since China is a haggling culture they will assume that the price being quoted has great latitude to work with. Their first reaction will be to bargain the price down. This will also help the Chinese negotiator satisfy his bureaucratic needs and wants as well as to gain face in front of his superiors.

Therefore the price should be aimed reasonably high to allow for this margin (Fang, 2006). Rejecting any request for discount in price will result in insult to the Chinese side and they could lose face. It might be expected at the final stage of the negotiation a rebate of 5%-7% in price will be demanded (Ghauri & Fang, 2001). Extreme demands from the Chinese side can also only be a matter of subjective opinion i.e. what is seen as too much in one culture can be seen as quite fair in another, especially if the seller is perceived wealthy. Such circumstances also offer opportunity for concession and meet essential value in China (Faure, 1999).

5.20 First offer

It is a habitude that the guests make the initial proposal but since the Chinese are skilled in haggling adding a cushion to the price is advisory. They will expect their visitors to be the same so they will simply presume the price adjusted to that respect. Too extreme pricing could insult and hurt the negotiation atmosphere so price wisely and in appropriate cultural manner (Akgunes, Culpepper, & Austin, 2012). If the reason for the negotiation is to build a long lasting relationship with the Chinese counterparts it should be cautioned that immense first offer may create a lasting negative side effect. Such offer might disgrace the proposer and sabotage future business (Zhenzhong Ma, 2010). In the events of the Chinese side going too far from a realistic offer the appropriate respond would be to remain calm and ask for well-grounded arguments e.g. "Could you please inform us how you came up with this number?" If they proceed by bringing a competitor into the discussions it is time to demand further information for comparison, like which product, warranty terms, delivery schedule and so forth. This could be time consuming but most likely it will be worth it (Graham & Lam, 2003).

5.21 Counter-offer

Both the first offer and counteroffer should be fair, or negotiable. In a haggling culture like China it is not recommended to accept a reasonable offer without a counteroffer. Such action could be interpreted as an insult. When making a counteroffer it is important that it is justified with good persuasive skills. One should use accurate information about the marketplace and counterparts are essential. If the other side is still demanding much more than one can afford after back-and-forth negotiation it is probably best to come clean and give them your maximum number and compare to

other competitors. This approach should not be used to play one company against another since that could demolish the negotiator's reputation in the marketplace. Sincerity is a key in this situation (Zhao, 2000).

5.22 Concession

An intelligent goal would be to eliminate conflicts or avoid them by managing them in a creative and constructive manner. This should be done by maintaining a positive atmosphere and sensitivity (Darling & Heller, 2011). One way to demonstrate a serious willingness to establish a long-term relationship is to make the first concession with mutual benefit in mind. This intention should be clearly stated and made sure that such a cooperative attitude is to the other team's satisfaction (Zhao, 2000). It is likely that the Chinese will try putting all the unsettled issues in a "package deal" at the end to finish off the unsolved topics (Ghauri & Fang, 2001).

5.23 Perspective

Endurance is highly regarded trait in Chinese society and it's a sign of endurance to go great distances in researching and then to bring the results to the Chinese side (Zhu, Nel, & Bhat, 2006). When the bargaining process meets a hurdle it could be a good time to remind the opposing team that other countries, such as Indonesia, South Korea and Thailand are also capable of providing cheap labor force and even better trained. Approach of such kind will put the Chinese position into perspective and help them realize that settlement might be in order. When the foreign side is confident in its own products and wants to build trust in its merchandise a clever thing to do would be to provide information about their rival's products and challenge a comparison. This is a vital step especially if offering a more expensive product than the competitor. It is never recommended to play tricks because they are not foolish (Sheer & Chen, 2003). To provide a demonstration is a powerful way of proving a point. Also include explanation of the company's needs, preferences and situation, but arrogance will diminish this approach (Zhu, Nel, & Bhat, 2006).

5.24 Adaptation

For effectiveness it is important to be able to slip into the flowing course of events during the negotiation process. One major point is to conceive a puzzle. Some are

already given but others are created as the process continues. There are some obvious effects that occur during the course of events but others are hidden. It is therefore essential to adapt to these circumstances for optimum results (Faure, 1999).

5.25 Patience

The foreign side should be aware that the Chinese use the negotiation process to build business relationship to last a long time. Patience is probably going to be one of the visitor's most valuable attribute during the encounter (Akgunes, Culpepper, & Austin, 2012). It is a sign of *chiku nailao* to show patience. Many things will test the individual's patience during the negotiation process. A considerable time may go into processing any new information or developing new questions. It is wise to have an understanding from the home office that persuasive delaying tactics could be expected when dealing with Chinese and have a full backup for such affair. Taking up to six trips to China over a period of one year to complete agreement is to be expected but this will pay off. With time and patience the power distance is likely to reduce making it easier to reach a specific level of closeness and improving the business relationship (Zhu, Nel, & Bhat, 2006).

5.26 Decision makers

Identifying the true decision maker are usually absent but in large projects negotiations they are usually high-ranking officials or senior executives, sometimes even both. Managing to talk directly with them to gain their personal support for the project will help "get twice the result with half the effort" (Fang, 2006).

5.27 Breaking a deadlock

The first thing is trying to realize the cause of the deadlock. In the case of a deadlock during the negotiation process there are few things that could come in handy depending on the situation. Creating more value or leveraging the price with service, quantity, delivery time, technology etc. When it is a matter of misunderstanding improving two-way communication could serve as a good solution. Sometimes suggesting a recess can work wonders but a last resort solutions, only to be conducted before complete failure, include arbitration, mediation or a walk out. This sends the

message that the negotiator is trying to save the deal if there is any chance left for a fair conclusion (Zhao, 2000).

5.28 Disputes

The foreign side should be prepared to resolve any possible disputes during the negotiation process. This can be done at the end of the contract through the use of clauses. It should be noted that such clauses might gratify the Chinese to practice Confucian aversion to law which could involve arbitration. Using trust or some similar cooperative Confucian methods might give better results. Problem solving strategies always increase the change of success, especially if practiced by both sides (Akgunes, Culpepper, & Austin, 2012).

5.29 Context of the deal

A knowledgeable team member about the involvement of the local government in local business will display credibility and assurance. Being familiar with policies and regulations that connected to industry will be an asset (Akgunes, Culpepper, & Austin, 2012).

5.30 Closing the deal

Resolving a deadlock is a big step towards closing a deal. The official language for the contract should be both English and Chinese. All contracts in China must be governed by China's laws and regulations but flexibility is possible within reason (Zhao, 2000).

5.31 Post-negotiation

If e.g. anything changes after the signing of the contract the Chinese will go great lengths to re-negotiate old demands". This can also occur when the Chinese negotiator attains a different understanding of the issue and wants to make it right (Faure, 1999).

5.32 Failures

When negotiating large industrial projects and dealing with the PRC condition, the nonresident company should study the Chinese government's priorities and policies. If the project doesn't come into the priority project category there may be problems in everything (Ghauri & Fang, 2001).

5.33 Undesirable behaviors

Even though one might know what to expect from a Chinese counterpart and possess negotiation guidelines for support it is still important to be aware of few behaviors that could turn things sour.

5.33.1 Don't stereotype

Stereotyping is quite natural for most people but be cautious not to make inferences about individual's traits because one might just be barricading his mind to useful information and of the fact that more perspectives possibly exists than one might prejudice. Nationality can carry valuable information but there are many different cultures influencing the individual. By placing too much emphasis on the counterpart's passport as the Rosetta Stone one is in danger of missing other contextual and powerful factors (Sebenius, 2002).

5.33.2 Don't take a Chinese yes for a yes

When the Chinese say yes most of the time it simply means "I am listening", and should not be taken for anything else. This is one of many reasons why things have to be taken into perspective. English expressions like "couldn't", "don't", "cannot" or "could never" are much too often misunderstood by the Chinese as exactly the opposite. For example saying "I couldn't agree more", is easily mistaken for "I don't agree at all". Saying "our company couldn't be better", is mistaken for "our company cannot be better". Another example is "our product couldn't be more competitive", is heard as "our products are not competitive anymore", and finally "we could never be too nice to our customers", is perceived as stating "we will not be very nice to our customers". Using expressions like these often put negotiations into awkward position, even deadlock. The foreigners don't even realize what has just happened and why the Chinese side has suddenly changed their mind and want to quit the negotiation (Zhao, 2000).

5.33.3 Careful of using perceptions

Another error to avoid is deducing the other side's intentions by simply basing that idea on one's own perspectives. If the culture is very different from the visitor's culture it is probably not a good idea to put oneself in the other's positions by using empathy-cognition (Darling & Heller, 2011). Keep in mind that a certain kind of approach can

create what is expected, in another words, perceptions can shape reality. The best way to go about things is to keep an open mind and not labeling things still to come (Sebenius, 2002).

5.33.4 Don't use negative emotions

Chinese negotiators consider direct threats as unscrupulous and the least acceptable one was threatening to abuse personal information to harm the other team. Using negative emotions, like disgust, anger or disappointment, as a tactical move can prove to be a huge mistake. Those types of ploys could cause the other side to lose face which could pose a negative chain-reaction and become very problematic (Rivers & Volkema, 2013). Escalating demands, reputation challenges, outbursts, embarrassing the opponent and face issues are all undesired qualities during Chinese negotiations (Faure, 1999).

5.33.5 Don't make a Chinese lose face

Face is a big reason for a lot of fallacies. Never should a Chinese CEO or a senior be corrected directly and by no means in front of his subordinates. That will make him lose face and could drastically impact the relationship to the worse (Faure & Fang, 2008).

5.33.6 Avoid price concession

Asking for a price concession from the Chinese side can be risky as they easily get offended which may result them in withdrawing and exercising silent treatment. This could prolong the negotiation process (Akgunes, Culpepper, & Austin, 2012).

5.33.7 Don't use time pressure

Since time is viewed as an unlimited resource it would be a mistake to try to use time in one's favor. Time pressure won't affect the Chinese counterpart one bit and they probably have more endurance than one could begin to expect (Faure, 1999).

5.33.8 Don't be arrogant

Too often the executive in the foreign team must prove his knowledge as superior to his team members. That can create one-upmanship and most likely will only result in distractive communication. Being too competitive tends to generate less cooperative

attitude and more assertive one which seldom breads success in China. Too much emphasis on own goals and objectives is not a honorable trait (Darling & Heller, 2011).

5.33.9 Don't disrespect hierarchy norms

Sending a low-ranking representative to negotiate will insult the Chinese side and make them doubt ones sincerity. They will retaliate by sending a low-ranking agent to match the other resulting in a deadlock since he will not even be allow to negotiate (Akgunes, Culpepper, & Austin, 2012).

6 Times are changing

Globalization of national cultures due to worldwide expansion of commerce over decades suggests that it could have affected the national cultures over time (Vieregge & Quick, 2011). Here the behavioral changes of the young generations will be addressed and the robustness of Hofstede's study examined.

6.1 Importance of young generations

The younger generation is getting more internationalized every year as the cultural awareness and gap between China and other countries increasingly narrows. As China becomes more westernized the cultural difference between civilizations gets less unfamiliar (Sheer & Chen, 2003). That is why it is consequential that organizations understand the negotiation behavior of the younger generation to escape a possible business failure (Vieregge & Quick, 2011).

6.2 Generation gap

Generations born between 1965-1979 (X-Gen) and 1980-2000 (Y-Gen) differs in some ways to the older generation born 1946-1964 (Baby Boomers). Unlike the older generation the X-Gen and Y-Gen spend more time and effort on compromising and persuasion during negotiation than on relationship building. This suggests that the importance of relationship building during the initial negotiation meeting is not as vital as it used to be, but trust building still remains mandatory. The younger generation also seems to put less significance in harmonious relations during the negotiation process and prefer to spend more time on the content and technical issues than their elders do. Both the X-Gen and Y-Gen from Asian cultures seem to be shifting towards more individualistic behaviors than the Baby Boomers which narrow the gap between the Eastern and Western societies. The biggest behavior difference, during the negotiation process, between the younger and the older generations might be explained by the increased attitude change towards individualism. Due to the fact that a greater generation gap exists between the Baby Boomers and the Y-Gen more differences is found between those two than between the Baby Boomers and X-Gen. Likewise, there

was no consequential difference found between X-Gen and Y-Gen. Although no significant differences were found between generations in other dimensions this suggests that changes do occurs with passing time but small in nature (Vieregge & Quick, 2011).

7 Conclusion

The main purpose of this thesis was to find the appropriate strategies and techniques to be used when negotiating in China and gain an insight into Chinese behavior and philosophy in regard to negotiation. The findings illuminated a society that follows three different types of teachings Confucianism, Taoism and Buddhism with no complications. This is a nation that practices contradictions, flexibility, deception and paradoxical approaches that shapes behaviors and attitudes of its people. This also affects the Chinese negotiation style where the context of things dominates. The Chinese put great emphasis to relationship building when doing business. This is how they measure trust which holds more importance to them than a written contract. One should therefore familiarize with the importance of *guanxi*, have patience and wait for results to come gradually. Every year in China will pay off in the future and old friendships will be of enormous support through time.

Changes towards more individualist negotiation approach with the younger generation indicate some shifts in business behaviors between generations which might be a precursor for more substantial changes. After this study it is clear that business negotiation with Chinese is a challenging task that will continue to challenge many executives in coming years. Learning the game, the rules, and respect them is an opportunity that can harvest great benefits. Anyone that enters the territory of People's Republic of China and expects things to go his ways by implementing some clever and quick persuasive negotiation strategies is in for a disappointment. Arrogant attitude and assertive behavior will not serve well in these surroundings. It is a good reminder that before entering the complex high-context cultural world of China to be humble and prepared to adapt and be flexible. The Chinese are very skeptical towards stubborn and inflexible negotiators. After all, their belief indicates that "only devils move along a straight line."

8 Discussions

Through this thesis I found it interesting to see how an urge for business relationship between nations motivates studies of cross-cultural differences. Increased cross-cultural dealings are likely to generate their own international business culture so in a way it can be argued that commerce reduces unfamiliarity between societies.

The young generation seems to be moving away from collectivism towards more individualized negotiation behavior when comparing them to the Hofstede's dimensions model. Both Hong Kong and Taiwan are already more individualized than the People's Republic of China which indicates that increased cross-cultural business transactions influences such attitude changes.

China is such a huge country so it is essential to distinct between different sub-cultures and plan strategies according to region. Also this research reminded me that when negotiating we deal with individuals not average behaviors of general population and should therefore not make too many presumptions. Minimizing cultural differences by stereotyping or by believing that deep inside we are all the same can lead to huge misunderstandings and misinterpretations.

Finally, I want to mention that it was interesting to learn how robust the Hofstede's cultural dimension model seemed after over thirty years.

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