

Discussion Paper

# Sino-American Cross-Cultural Negotiations

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## **The Importance of Understanding Cross-Cultural Differences to Negotiation**

As our world becomes ever more globalised, we are increasingly likely to participate in negotiations with organisations and individuals from other cultures. This increase in trans-border connectivity, greatly enhanced by the onset of technology, has brought once disparate people together to negotiate. Failure to understand the importance in cross-cultural differences in negotiation styles presents a very real threat to the ability of organisations to extend their global reach and secure a prominent role for their future on the international stage.

This is perhaps most greatly evident in Sino-American negotiations that display markedly dissimilar attitudes between US<sup>1</sup> and Chinese approaches to the negotiation process. Understanding cultural differences, therefore, appears to be an essential tool to for future negotiation. Furthermore, as we continue to observe the Chinese economy grow at a rapidly expanding rate and play a more prominent role internationally, we can only expect the importance of negotiation with the Chinese to increase. As the president of the World Bank recently predicted, the next phase of our global economic growth will be derived from developing economies such as China<sup>2</sup>. We can expect the country to be a hotbed of negotiation as businesses and governments jostle to negotiate terms of agreement with this emerging economy.

This paper addresses the obstacles in negotiating with the Chinese and offers solutions from in-class personal experiences and secondary-sourced empirical data on the topic to provide a better understanding of how to improve outcomes and process when negotiating with the Chinese.

### **A Definition of Culture, Eastern vs Western Approaches**

In the centuries that have followed Marco Polo's first business expedition to the Far East, many businesspeople in repeating his journey to China have returned empty-handed from failed negotiations; the conclusion is often that negotiating with the Chinese is simply too

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<sup>1</sup> The US is used as the primary example of the Western negotiation approach to highlight the differences between Western and Chinese negotiation practices, not least because of the exceptionally high rate of unsuccessful outcomes by US negotiators in China.

<sup>2</sup> Wolfensohn, James, *IMF Survey*, November 2001 This already appears to be bearing true; after the country's recent accession to the World Trade Organisation (WTO) in 2002, China registered a US\$41.2bn influx of investment capital, making the country the largest foreign destination for capital in the world. (Source: China Daily, November 2002)

difficult. It seems unavoidable that when East meets West through negotiation, the result leaves Western negotiators “flummoxed and failing”<sup>3</sup>. Yet, why is negotiation with the Chinese notoriously difficult?<sup>4</sup> More recent literature suggests that the root cause is a failure – mostly on the American side – to understand the much broader context of Chinese culture and values. It is clear, that to ignore these is to invite failure, disagreement and impasses in negotiations between the two parties<sup>5</sup>. The formal definition of culture varies greatly, but a widely accepted one by Schein (1985) defines it as,

“[...] a pattern of basic assumptions - invented, discovered, or developed by a given group as it learns to cope with its problems of external adaptation and internal integration - that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems”<sup>6</sup>

The underlying reason for the difficulties that arise in negotiation between two parties from very different cultural backgrounds appears to stem from difference in these ‘basic assumptions’ and norms of social interaction that manifest themselves in contrasting behaviours and expected process when negotiating. Essentially, the culture between an American and a Chinese negotiator varies so much that they bring to the table very different attitudes and expected behaviours that can often result in an impasse. The causal reasoning this is that there exists a very different political and social history between the Eastern and Western parts of our globe. Over many thousands of years as a result, China and the US have bred divergent norms between the two countries that are the underlying reason of any subsequent behaviour that comes to fruition during a negotiation. These behavioural norms themselves are rooted in different core assumptions and beliefs that differ greatly between the two cultures. Rousseau’s ‘Layers of Culture’ (see diagram below) suggests that these differences stem from a disparate set of core values deeply entrenched in negotiators on both sides of the table. For negotiators to gain from a negotiation<sup>7</sup> then it should merely be a matter of improving understanding and negotiation approach to increase the chances that a mutually successful outcome is reached.<sup>8</sup>

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<sup>3</sup> Graham, John L. & Lam, Mark, *HBR Spotlight: The Chinese Negotiation*, Boston: Harvard Business Review October 2003, p. 82

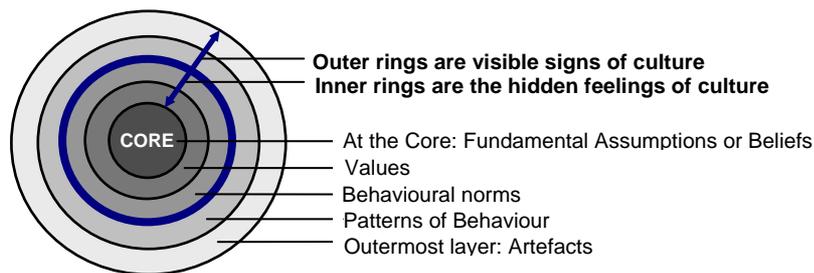
<sup>4</sup> This in part at least, can be accounted for by the very apparent language barrier as well as the polar opposite differences in the legal and political systems between the US and China that pose difficult and logistical constraints to negotiation.

<sup>5</sup> As Graham and Lam note however, it is important to recognise these as broad stereotypes and generalisations that do not necessarily apply to all negotiators.

<sup>6</sup> Schein, E. H., *Organisational Culture and Leadership*, San Francisco, 1985 California: Jossey-Bass

<sup>7</sup> We can assume that this is always the aim in a negotiation.

<sup>8</sup> It is most probably likely that only one side requires an understanding of the cultural difference in order for there to be an overall improvement in the negotiation process or probability that a successful outcome is reached.



'Layers of Culture', Reproduced from Rousseau, D (1990, figure 5.1, p158) with additional annotation

It follows therefore, that negotiators who understand, appreciate and harness these differences will be able to predict behaviour from their counter-party and utilise the knowledge of behavioural patterns of the opposition to improve their singular or joint outcome in the negotiation. Furthermore, when negotiating specifically with the Chinese it is observed empirically that negotiations are more likely to result in success<sup>9</sup> when a *diplomatic and tactful approach* is taken on the American side. The evidence is overwhelmingly significant, suggesting that “Chinese negotiators [...] have been characterised as cooperative and ‘win-win’ when relationships have been properly established.”<sup>10</sup>

**What Differences Arise between US and Chinese Negotiation Approaches?**

The following differences in cultural values are observed in Sino-American negotiations:

Differences in Basic Cultural Values<sup>11</sup>

<b>American</b>		<b>Chinese</b>
Individualist		Collectivist
Egalitarian		Hierarchical
Information orientated		Relationship orientated
Reductionist		Holistic
Sequential		Circular
Seeks the truth		Seeks the way
The argument culture		The haggling culture

The differences in basic values listed above are virtually polar opposites that are a product of disparate assumptions and beliefs at the core level of culture. Cross-cultural negotiations often fail because these core values are manifest themselves in different behavioural norms that are unexpected, often misunderstood and not reciprocated. It is fair to assume that we

<sup>9</sup> Measured firstly as negotiation completion and not an impasse, and secondly as a somewhat favourable result for both parties.  
<sup>10</sup> Miles, M. *Negotiating With the Chinese: Lessons From the Field*, The Journal of Applied Behavioural Science, Arlington: Dec 2003. Vol.39, Iss. 4; p. 453  
<sup>11</sup> Graham, John L. & Lam, Mark, *HBR Spotlight: The Chinese Negotiation*, Boston: Harvard Business Review October 2003

cannot demand a change in core values between negotiators,<sup>12</sup> but we can expect to align *behaviour* by manipulating actions and negotiation tactics for the purpose of a negotiation process. In order to do this, there needs to be an improvement in the level of understanding between negotiating parties, and in the context of this paper, altering the US approach is considered.<sup>13</sup>

### **Key Approaches to Chinese Negotiations**

To understand how to approach a negotiation with the Chinese, it is obvious that US negotiators will need to have an appreciation for the underlying roots of Chinese culture itself. General lessons from the field suggest that “ritual is important”, that “agreements take time”, that the “Chinese are shrewd”, but that through “frank discussion and patience, opportunity awaits”<sup>14</sup>. However, more precise behavioural categorisation is needed, and this is offered by Graham and Lam<sup>15</sup> in their most recent research, suggesting that there are *four distinct threads* of culture that have held constant over 5,000 years are apparent in business negotiations. Broadly these are; (1) Chinese agrarianism, (2) morality, (3) pictographic language and (4) a tendency to be weary of foreigners. These cultural approaches are in stark contrast to the American attitude to living.

The Chinese have historically focused on primary industry such as farming – a more communal attitude, whereas the American focus has been much more industrial – a more individualistic attitude. These two opposing approaches, although very broad, can correspond loosely to contrasting approaches to negotiation; integrative (communal) vs distributive (individualistic). Whilst this is a crude generalisation for all Sino-American negotiations, it is a very apparent obstacle for many interactions between these the cultures, as they both approach the table with incompatible attitudes as to the process and outcome of negotiation. An agrarian outlook depends on communal attitudes of co-operation that are more likely to work in an integrative negotiation, compared to an industrial attitude that does not require the same level of co-operation, and is thus more suited to a distributed negotiation approach.

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<sup>12</sup> After all our fundamental assumptions or beliefs makes us who we are as the building blocks of our personalities.

<sup>13</sup> Changing possibly one side alone will suffice to improve a negotiation process or outcome.

<sup>14</sup> All quotes: Miles, M. *Negotiating With the Chinese: Lessons From the Field*, The Journal of Applied Behavioural Science, Arlington: Dec 2003. Vol.39, Iss. 4; p. 453

<sup>15</sup> Graham, John L. & Lam, Mark, *HBR Spotlight: The Chinese Negotiation*, Boston: Harvard Business Review October 2003

Likewise, Chinese morality suggests that Chinese negotiators are more concerned with the process rather than the end goal. This greatly contradicts the US approach to negotiation that emphasises defining an ultimate objective, and then fills the path to reach that goal. This is further supported by the Chinese use of a pictorial language requiring native speakers to learn thousands of pictorial characters, and as such, they have a natural tendency to see the bigger picture, when compared to their more detail-orientated American counterparts.<sup>16</sup> There are specific outcomes from these two cultural threads: Firstly, as a result of Chinese morality, procedural fairness and norms of negotiation process are rated very highly by the Chinese, and more so than Americans who view the final agreement as the ultimate assessment of negotiation justice. Secondly, use of a more pictorial language suggests that when negotiating a number of tradable issues for example, Americans will prefer to deal one point at a time, rather than the use the Chinese approach of a more holistic view.<sup>17</sup> Lastly Graham and Lam comment that the Chinese's tendency to be weary of foreigners suggests results in a more stand-offish attitude, and are less trusting nature in negotiation, unlike the more open approach used by Americans. This further supports the need to build trust in a Sino-American negotiation.

### **Solutions to Chinese Negotiations**

Several themes are vital for US negotiators to understand and use to adapt their negotiation style in order to negotiate more successfully. Culture underlies four central threads of negotiation style that in turn underlie a further eight elements<sup>18</sup> that are observed in Chinese Negotiation:<sup>19</sup>

#### 'Guanxi' or Personal Connections

The Chinese hold personal connections and social capital as exceptionally important factors in a negotiation. The person with the greatest 'Guanxi' in a bidding process against competitors for example, usually wins. Interestingly, the personal connections and favours should be implemented under strict reciprocity -although not *immediately* in a negotiation process. The norm of reciprocity that we usually expect holds true with the Chinese, but not necessarily in a single course of negotiation. Instead, in the spirit of building long-term

<sup>16</sup> This difference was first noted by Michael Harris Bond, a psychology professor at the Chinese University of Hong Kong

<sup>17</sup> This fits with what has been observed in our Negotiations class, where most often the preferred and most successful process in class is to deal with complex multi-issue negotiations one component at a time. This is discussed under the 'Zhengti Guannian' - Holistic Thinking section of the paper.

<sup>18</sup> The following recommendations are adapted from the research of Graham & Lam, 85-91

<sup>19</sup> The last three elements, whilst still important factors in addressing Chinese negotiations are not as the essential as the preceding five

business relationships, an act of reciprocity could be returned after many years, such that favours in China are remembered, but not necessarily returned immediately. This has been a strong component throughout our Negotiations class that emphasizes the long-term payback of employing an ethical approach that gains a positive reputation for negotiation.

#### 'Zhongjian Ren' - The Intermediary

US negotiators tend to trust their negotiation partners unless there is reason to feel otherwise, although for Chinese negotiators, the reverse is true, such that business relationships cannot even be formed without trust. There is a great preference by the Chinese to use an intermediary with whom they can build trust; in fact it is always the intermediary in China who brings up the business issue to be discussed, and not the negotiator. Trust must be transmitted via 'Guanxi', such that the first step in a negotiation called 'nontask-sounding'<sup>20</sup>, is to build personal links to the target organisation or executive. An intermediary can provide the link between you and this target, such that both parties know the intermediary well<sup>21</sup>, and can therefore act as bridge of trust, and even provide a crucial link between two otherwise hostile negotiators. This itself was evident in our own in-class exercises, such as the 'Agency House' Case or the 'OPEQ' meetings where much of the success of these was dependent on parties trusting an intermediary or agent, or team representative – in the case of the 'OPEQ' exercise. .

#### 'Shehui Dengji' - Social Status

Social status in Chinese culture is also very highly weighted by the Chinese. The importance of recognising and respecting social standing is seen as key to preserve respect. The American predisposition to be relaxed and informal is contrary what Chinese expect in a negotiation. This has hardly ever been the case in our own in-class negotiations where a relaxed attitude among American<sup>22</sup> students tends to break down barriers of formality, and reduced the propensity for negotiations to fail because of a lack of respect. In China however, sending an inferior negotiator to work on a Western company's behalf could be damaging to a negotiation from the outset, as the Chinese would read this as a lack of sincerity.

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<sup>20</sup> Non task sounding is the first step of the negotiation process that initiates and sets the trend for future negotiation interaction.

<sup>21</sup> Normally because of some past personal experience, e.g. school, university or hometown

<sup>22</sup> Or in-country international students observing American cultural norms!

### 'Renji Hexie' Interpersonal Harmony

While respect and responsibility bind hierarchical relationships together, it is 'Renji Hexie', or friendships that hold equals together. Trying to close a deal without sufficient 'Renji Hexie' is considered rude. Whereas the initial process of sizing the opposition up – or 'nontask-sounding' may take minutes in the US, it could take days and even weeks in China. American negotiators, in dealing with their Chinese counterparts, should never therefore underestimate the importance building a healthy and long-lasting relationship through sporting events, long dinners (where anything but business is discussed), and discussions involving alcoholic drinks allow the Chinese to steadily understand their business partners. In this sense, the Chinese are seen as inefficient and slow in closing a deal, but equally the Chinese cannot understand an American's haste in wanted to get a contract signed.

### 'Zhengti Guannian' Holistic Thinking

Perhaps stemming from their pictographic writing, as a deep cultural thread, the Chinese prefer to approach a negotiation in a more holistic manner, as opposed to thinking more individualistically or sequentially. Chinese negotiators tend to ask many questions and feel around an agreement, rather than American approach to work through an agreement step by step, and deal with each negotiable issue at a time.<sup>23</sup> This is very similar to our in class approach which adopts a scoring method that divides up separate negotiable issues. Even packaging separate issues together and trading them – as in 'The Player' case, only approximates a Chinese approach faintly. A Chinese negotiator will often skip between several components of an agreement without ever settling on one specific choice. The result can be highly frustrating for the untrained foreign negotiator, who would believe that if you're halfway through the negotiation when you've discussed half of the issues. In Chinese negotiation, *nothing* is settled until *everything* is settled.<sup>24</sup>

### 'Jiejan' Thrift

Chinese frugality cannot be underestimated, as becomes clear in price discussions during negotiation. US negotiators often find that Chinese responses to price are insulting and are outside of a reasonable zone of possible agreement, (ZOPA). American negotiators should respond by attempting to gradually bring concessions from their counter-party in an unhurried manner, and challenge the Chinese to support their quoted price.

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<sup>23</sup> This has often been the most preferred and successful process observed in class, to deal with complex multi-issue negotiations.

<sup>24</sup> Op. Cit., Graham and Lam, P. 89

'Mianzi' Face or Social Capital

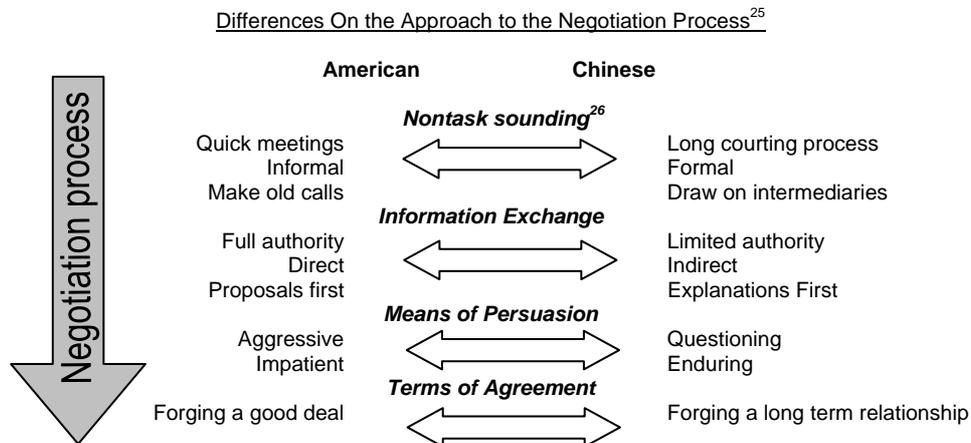
In Chinese business culture a person's reputation depends on 'saving face'. Embarrassment or loss of composure for the Chinese to be disastrous for the course of a negotiation as 'Mianzi' is considered in China to be someone's most important measure of social worth.

'Chiku Nailao' Endurance or Relentlessness

The Chinese are well known for an ingrained sense of industriousness. Whereas US businesses regard talent very highly, Far Eastern enterprises value an ethic of hard work. This manifests itself in two forms at the negotiation table: firstly, the Chinese negotiating party will most probably have prepared better than US negotiators, and secondly that they will expect them to perform for longer periods without jet-lag or late-night business entertainment posing a problem.

## Conclusion & Closing Remarks

In summary, the eight elements present the following differences in negotiation style between US and Chinese Negotiation approaches:



Collectively, these differences are distilled into two fundamental approaches:

- An unhurried, though formal attitude should be used when negotiating with the Chinese. What matters more is the level of harmony and trust in a business relationship. Above all patience is key; a brash upfront approach is not likely to go down well.
- Sending the 'right' US negotiating representative for a foreign business. That representative should encompass all that the Chinese will expect in a negotiator – the right level of seniority, a good natured person, preferably with Guanxi (personal connections), has access to Zhongjian Ren (an intermediary) and has plenty of Renjie Hexie (interpersonal harmony).

This paper has identified a number of strategies to deal with Chinese negotiation. Almost all of the research in this field has acknowledged the fact that it is ineffective (and often counterproductive) to work without understanding or appreciating these factors and the underlying reasons for them that are ingrained in fundamental (and unobserved) cultural norms and expectations. How much does cultural difference affect the outcome of a negotiation?: Probably more than we ever truly observe.

<sup>25</sup> Op. cit., Graham and Lam p 85

<sup>26</sup> Nontask sounding is the first stage of the negotiation process.

By fully understanding what the Chinese hold as core values allows us predict and appreciate what behaviour will become evident in the course of a negotiation. Using the eight elements of negotiation, rooted in four historical threads of Chinese culture, are key to survival.

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## Appendices & Bibliography

### Epilogue: Learning for the Future

Evidence from past negotiation cases is conclusive in that understanding cross-cultural negotiations, and the specific nuances of dealing with the culture of the counter-party will greatly improve the process and outcome when negotiating across cultures. However, cross-cultural negotiation appears to simply be a challenging degree of the central feature in negotiation. Cultural differences simply provide an extra layer of complexity and social appreciation of protocol that makes the 'negotiation dance' all that more difficult. Crucial to success therefore, is employing a number of tactics discussed within this paper that are aimed not only at understanding the norms of Chinese negotiation, but also aim to help negotiators uncover underlying motives and fundamental norms that allows a successful and mutually beneficial agreement to be reached.

Specifically in this paper, China has been used as a case study both because of the difficulties that often arise in negotiation with the Chinese as well as the country's growing commercial importance and economic growth. However, whilst the lessons presented for China are content specific to the Chinese culture, many of the recommendations made herein – such as preparation, reciprocity norms, taking a diplomatic considered approach to negotiation could apply to many other cultures or contexts.

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