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# The Chinese Negotiation

by John L. Graham and N. Mark Lam

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# The Chinese Negotiation

## The Idea in Brief

You're preparing for a business trip to China—armed with a list of etiquette how-tos, stacks of business cards, and that conservative suit. These may get you through the door at your Chinese counterpart's company—but they won't help you forge the long-term associations Chinese and Western businesses can now achieve.

To do that, you need to understand the broad context of Chinese culture and values and their impact on the Chinese negotiating style. Deep cultural differences have created seemingly incompatible contrasts between Chinese and Westerners' approaches to negotiation. Often, Chinese businesspeople see Americans as aggressive, impersonal, and excitable. Westerners may see Chinese negotiators as inefficient, indirect, and even dishonest. The consequence? Business communications repeatedly break down.

Four cultural threads underpin the Chinese negotiating style. By understanding these—along with eight resulting elements of negotiation—you can boost your chances of developing thriving, mutually profitable business relationships.

## The Idea in Practice

### CULTURAL THREADS

#### Agrarianism

Two-thirds of Chinese live in rural areas. This agrarian culture emphasizes cooperation, harmony, and obedience to familial hierarchy. Chinese traditionally revere the "root" (agriculture) and slight the "branch" (commerce).

#### Morality

Adherence to hierarchical relationships yields social harmony. Taoism—seeking "the way" between yin (passive) and yang (active) forces—encourages compromise in business and allows both sides to maintain valid positions. The best compromises result from the ritual back-and-forth of haggling.

#### A pictographic language

Because Chinese words are pictures rather than sequences of letters, Chinese thinking tends toward more holistic processing of information and emphasizes the big picture over details.

#### Wariness of foreigners

Millennia of external and internal strife have yielded a mistrust of strangers and cynicism about rules.

### NEGOTIATION ELEMENTS

#### Guanxi (personal connections)

Chinese businesspeople prize relationships among friends, relatives, and close associates. Favors are always remembered and returned, though not necessarily right away. Ignoring reciprocity is considered immoral.

#### Zhongjian ren (the intermediary)

An intermediary is essential during meetings with strangers. This trusted business associate connects you with his trusted associate, creating a personal link to your target organization or executive. Intermediaries interpret negotiators' moods, body language, and facial expressions. They—not the negotiators—first raise business issues for discussion, and often settle differences.

#### Shehui dengji (social status)

Casualness about social status doesn't play among people who value obedience and deference to superiors. Sending a low-level representative to a high-level negotiation can kill a deal.

#### Renji hexie (interpersonal harmony)

Relationships of equals are cemented through friendships and positive feelings, generated during months of home visits and long dinners. Any attempt to do business without first establishing harmony is rude.

#### Zhengti guannian (holistic thinking)

Chinese discuss all issues simultaneously in apparently haphazard order—emphasizing the whole package over details. Nothing is settled until everything is. This holistic thinking contrasts with Westerners' linear approach—and spawns the greatest tension between negotiating teams.

#### Jiejian (thrift)

Chinese bargain intensely over price, padding offers with room to maneuver and using silence and patience as tactics. They expect both sides to make concessions—often after weeks of haggling.

#### Mianzi ("face" or social capital)

A broken promise or display of anger or aggression causes mutual loss of face—disastrous to any deal.

#### Chiku nailao (endurance, relentlessness)

Chinese prize relentless hard work. They prepare diligently for negotiations and expect long bargaining sessions. Demonstrate your endurance by asking many questions, doing your research, and showing patience.

*You've heard the tips for negotiating in China: Bow and scrape. Dress funereally. Bestow expensive gifts. To move your dealings to the next level, you need to understand the cultural context of Chinese business style.*

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by John L. Graham and N. Mark Lam

In preparing for a business trip to China, most Westerners like to arm themselves with a handy, one-page list of etiquette how-tos. "Carry a boatload of business cards," tipsters say. "Bring your own interpreter." "Speak in short sentences." "Wear a conservative suit." Such advice can help get you in the door and even through the first series of business transactions. But it won't sustain the kind of prolonged, year-in, year-out associations that Chinese and Western businesses can now achieve.

Indeed, our work with dozens of companies and thousands of American and Chinese executives over the past 20 years has demonstrated to us that a superficial obedience to the rules of etiquette gets you only so far. In fact, we have witnessed breakdowns between American and Chinese businesspeople time and time again. The root cause: a failure on the American side to understand the much broader context of Chinese culture and values, a problem that too often leaves Western negotiators both flummoxed and flailing.

The challenge of mutual understanding is

great; American and Chinese approaches often appear incompatible. All too often, Americans see Chinese negotiators as inefficient, indirect, and even dishonest, while the Chinese see American negotiators as aggressive, impersonal, and excitable. Such differences have deep cultural origins. Yet those who know how to navigate these differences can develop thriving, mutually profitable, and satisfying business relationships.

Several caveats before we continue: First, we use Americans as our primary examples of Western negotiators not only because our research has focused primarily on U.S. companies and executives but also because Americans exhibit individualism and assertiveness more strongly than other Westerners do. As a result, they tend to get into more trouble at the negotiating table. Second, we acknowledge that our sweeping statements about a billion-plus people can be simplistic. (We admit to stereotyping Americans, too.) Nevertheless, we are confident in asserting that the cultural values discussed here apply, in varying degrees, to

most Chinese—whether they live in China or in other parts of the world. Finally, the Chinese reader will not be surprised by what we observe here. Our goal is to help Western and Chinese negotiators learn to work together more efficiently with mutual respect and gain the ultimate prizes.

### The Roots of Chinese Culture

Four thick threads of culture have bound the Chinese people together for some 5,000 years, and these show through in Chinese business negotiations.

The first thread is agrarianism. In contrast to the U.S. population, which is mostly urban, two-thirds of the Chinese people still live in rural areas, laboring primarily in rice or wheat cultivation. Traditional Chinese agriculture is peasant farming. It is communal, not individualistic; survival depends on group cooperation and harmony. Loyalty and obedience to familial hierarchy binds laboring groups together. Many of China's city dwellers were born and raised in the country and have retained their agrarian values. Just as the most urbane Americans are influenced by the country's cowboy roots—"shoot first and ask questions later," "lay your cards on the table," and so on—the most modern Chinese are affected by millennia of living close to the soil.

Before the 1980s, agrarian values trumped business values. When during the Cultural Revolution Mao Tse-tung sent bureaucrats and students to be "reeducated" by the peasantry, he was reflecting the deep-seated belief in the virtues of rural life. Indeed, Chinese philosopher Fung Yu-lan explains in his works that Chinese sages historically distinguished between the "root" (agriculture) and the "branch" (commerce). Social and economic theories and policies tended to favor the root and slight the branch. People who dealt with the branch—merchants—were therefore looked down upon.

The second thread is morality. The writings of Confucius served as the foundation of Chinese education for some 2,000 years. During those two millennia, knowledge of Confucian texts was the primary requisite for appointment to government offices. Confucius maintained that a society organized under a benevolent moral code would be prosperous and politically stable and therefore safe from attack. He also taught reverence for scholarship

and kinship. Confucius defined five cardinal relationships: between ruler and ruled, husband and wife, parents and children, older and younger brothers, and friend and friend. Except for the last, all the relationships were strictly hierarchical. The ruled—wives, children, and younger brothers—were counseled to trade obedience and loyalty for the benevolence of their rulers—husbands, parents, and older brothers. Rigorous adherence to these hierarchical relationships yielded social harmony, the antidote for the violence and civil war of Confucius's time.

For a taste of the importance of hierarchy in Chinese society, consider what happened to Cheng Han-cheng and his wife. According to Chinese scholar Dau-lin Hsu, in 1865 Cheng's wife had the insolence to beat her mother-in-law. This was regarded as such a heinous crime that, among other punishments, Cheng and his wife were both skinned alive, their flesh displayed at the gates of various cities, and their bones burned to ashes. Neighbors and extended family members were also punished. This is, of course, an extreme example—but the story is oft told, even in today's China. And it underscores why it is so easy for casual Westerners to slight their authority-revering Chinese counterparts.

Roughly contemporary with Confucius was Lao Tsu, the inspiration for Taoism, whose fundamental notions involve the relationship of yin (the feminine, dark, and passive force) to yang (the masculine, light, and active force). The two forces oppose and complement one another simultaneously. They cannot be separated but must be considered as a whole. The implications of the collision and collusion of yin and yang are pervasive, affecting every aspect of life from traditional medicine to economic cycles. According to Lao Tsu, the key to life was to find the Tao—"the way" between the two forces, the middle ground, a compromise. Both Lao Tsu and Confucius were less concerned about finding the truth and more concerned about finding the way.

These moral values express themselves in the Chinese negotiating style. Chinese negotiators are more concerned with the means than the end, with the process more than the goal. The best compromises are derived only through the ritual back-and-forth of haggling. This process cannot be cut short. And a compromise allows the two sides to hold equally

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valid positions. While Americans tend to believe that the truth, as they see it, is worth arguing over and even getting angry about, the Chinese believe that the way is hard to find and so rely on haggling to settle differences.

The third cultural thread is the Chinese pictographic language. Just as Western children learn to read Roman letters and numbers at an early age, Chinese children learn to memorize thousands of pictorial characters. Because, in Chinese, words are pictures rather than sequences of letters, Chinese thinking tends toward a more holistic processing of information. Michael Harris Bond, a psychology

professor at the Chinese University of Hong Kong, found that Chinese children are better at seeing the big picture, while American children have an easier time focusing on the details.

The fourth thread is the Chinese people's wariness of foreigners, which has been learned the hard way—from the country's long and violent history of attacks from all points of the compass. So, too, has China fallen victim to internal squabbling, civil wars, and the ebb and flow of empires. The combination yields cynicism about the rule of law and rules in general. It can be said that the Chinese trust in only two things: their families and their bank accounts.

## The View from Both Sides

### American Chinese

#### Their basic cultural values and ways of thinking

individualist	collectivist
egalitarian	hierarchical
information oriented	relationship oriented
reductionist	holistic
sequential	circular
seeks the truth	seeks the way
the argument culture	the haggling culture

#### How they approach the negotiation process

##### **nontask sounding**

quick meetings	long courting process
informal	formal
make cold calls	draw on intermediaries

##### **information exchange**

full authority	limited authority
direct	indirect
proposals first	explanations first

##### **means of persuasion**

aggressive	questioning
impatient	enduring

##### **terms of agreement**

forging a "good deal"	forging a long-term relationship
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### The Eight Elements

The cultural influences outlined above have given rise to a clearly defined set of elements that underpins the Chinese negotiation style. Most American businesspeople we have worked with often find those elements mysterious and confusing. But if Americans ignore them at any time during the negotiation process, the deal can easily fall apart—as American businessman John Shipwright found out. (While his story is true, his identity has been disguised.)

Shipwright, an oil industry sales executive, traveled to Shanghai to nail what he believed was already a done deal. He was well briefed by the team that had begun the negotiation, armed with a handy pamphlet about Chinese business practices and etiquette, and bolstered by friends' advice. On day one, John followed their counsel to the letter, including treating his Chinese customers to an expensive dinner, which the pamphlet also recommended. On day two, he was invited to their offices, where he discussed every aspect of his company's offer, including delivery. Afterward, he treated his customers to another pricey repast.

On day three, the Chinese again asked about delivery. Shipwright repeated his company's stipulations, and the two sides discussed a variety of the other issues. On day four, having asked Shipwright to repeat the information about delivery yet another time, the customers agreed to an order-to-installation cycle that would take six months, and Shipwright considered the negotiations wrapped up. Day five found John eagerly anticipating his trip home, but that excitement gave way to dismay

when the customers reiterated their question about delivery. That's when Shipwright snapped. Visibly reddening, he blurted, "What? You want to talk about delivery *again*?" Taken aback by the outburst, the Chinese customers asked the interpreter what was wrong. They adjourned the meeting without comment and without arranging for another meeting. Two months later when he was back in Houston, Shipwright learned that those customers had inked a deal with a competitor.

Shipwright's outburst may have killed his deal, but that's not what really went wrong. His problem was deeper: He misunderstood the fundamentals of negotiating in China. Following are the eight important elements of the Chinese negotiation style in the order most Westerners will encounter them.

## 关系

### Guanxi (Personal Connections)

In fact, "personal connections" doesn't do justice to the fundamental, and complex, concept of *guanxi*. While Americans put a premium on networking, information, and institutions, the Chinese place a premium on individuals' social capital within their group of friends, relatives, and close associates. Though the role of *guanxi* is fading a bit against the backdrop of population mobility and the Westernization of some Chinese business practices, it remains an important social force. More often than not, the person with the best *guanxi* wins.

Here's an example of how *guanxi* works. Upon learning that China Post Savings Bureau planned to modernize its computer network, C.T. Teng, the general manager of Honeywell-Bull's Greater China Region, asked his Beijing sales director to approach the China Post executive responsible for this project. Because the sales director and the China Post executive were old university friends, they had *guanxi*. That connection enabled Teng to invite the China Post executive to a partner's forum at Honeywell-Bull headquarters in Boston. He also invited the CEO of Taiwan's Institute of Information Industry to the event. Over the course of the meeting, Teng proposed a banking system using Honeywell-Bull hardware and Taiwan Institute software to China Post's CEO, and the deal was accepted.

Good *guanxi* also depends on a strict system

of reciprocity, or what the Chinese call *hui bao*. This does not mean immediate, American-style reciprocity: "I make a concession, and I expect one in return at the table that day." In China, there's no hurry; agrarian rhythms run long. Favors are almost always remembered and returned, though not right away. This long-term reciprocity is a cornerstone of enduring personal relationships. Ignoring reciprocity in China is not just bad manners; it's immoral. If someone is labeled *wang' en fuyi* (one who forgets favors and fails on righteousness and loyalty), it poisons the well for all future business.

## 中间人

### Zhongjian Ren (The Intermediary)

Business deals for Americans in China don't have a chance without the *zhongjian ren*, the intermediary. In the United States, we tend to trust others until or unless we're given reason not to. In China, suspicion and distrust characterize all meetings with strangers. In business, trust can't be earned because business relationships can't even be formed without it. Instead, trust must be transmitted via *guanxi*. That is, a trusted business associate of yours must pass you along to his trusted business associates. In China, the crucial first step in this phase of negotiation, called "nontask sounding," is finding the personal links to your target organization or executive.

Those links can be hometown, family, school, or previous business ties. What's crucial is that the links be based on personal experience. For example, you call your former classmate and ask him to set up a dinner meeting with his friend. Expensive meals at nice places are key. If things go well, his friend accepts the role of *zhongjian ren* and in turn sets up a meeting with your potential client or business partner, whom he knows quite well.

A talented Chinese go-between is indispensable even after the initial meeting takes place. Consider what happens during a typical Sino-Western negotiation session. Rather than just saying no outright, Chinese businesspeople are more likely to change the subject, turn silent, ask another question, or respond by using ambiguous and vaguely positive expressions with subtle negative implications, such as *hai bu cuo* ("seems not wrong"), *hai hao* ("seems fairly all right"), and *hai xing* or *hai ke yi* ("appears fairly

*Chinese negotiators are more concerned with the means than the end, with the process more than the goal.*

passable”).

Only a native Chinese speaker can read and explain the moods, intonations, facial expressions, and body language Chinese negotiators exhibit during a formal negotiation session. Frequently, only the *zhongjian ren* can determine what’s going on. When an impatient Westerner asks what the Chinese think of a proposal, the respondents will invariably offer to *kan kan* or *yanjiu yanjiu*, which means, “Let us take a look,” or “Let us study it”—even if they think the proposal stinks. This is where the *zhongjian ren* can step in because he is an interpreter not so much of words as of cultures. Often, the two parties can say frankly to the intermediary what they cannot say to each other. In China, the intermediary—not the negotiator—first brings up the business issue to be discussed. And the intermediary often settles differences. Indeed, we have seen more than one *zhongjian ren* successfully deal with divisive disagreements. The following is one such case.

A vice president of a New York-based software company went to Beijing to negotiate a distribution contract with a Chinese research institute. Having attended meetings arranged by the intermediary—a former senior executive with the institute—the VP was pleased with the progress during the first two days. But on the third day, the two sides became embroiled in a fruitless debate over intellectual property rights. Feeling they were losing face, the Chinese ended the meeting. That night, the VP and the China country manager met with the intermediary. The following day, the intermediary called the head of the institute and worked his magic. In the end, both sides agreed that the intellectual property rights were to be jointly owned, and the contract was signed.

## 社会等级

Shehui Dengji (Social Status)

Westerners frequently find it difficult to understand the formality of Chinese businesspeople. American-style, “just call me Mary” casualness does not play well in a country where the Confucian values of obedience and deference to one’s superiors remain strong. The formality goes much deeper, however—unfathomably so, to many Westerners.

Consider what happened when one U.S.

company neglected to pay attention to the importance of *shehui dengji* in Chinese culture. The company sent a relatively young and low-level sales representative to a high-level negotiation. The Chinese executive remarked, “Ah, you’re about the same age as my son.” The Chinese felt insulted by the Americans’ failure to send an executive whose rank at least equaled theirs. They doubted the Americans’ sincerity, and the deal died before it began.

At some point, negotiations may require a meeting of equals in the hopes of stimulating more cooperation. But top-level Chinese executives will not be prepared to bargain and will not be persuaded. It’s simply not their role. Rather, they will evaluate the relationship during a show of sincerity or *cheng-yi* by their Western counterparts. And high-level meetings can work wonders. When General Motors was courting Shanghai Auto back in 1995, CEO John F. Smith made three trips to Beijing to meet with Chinese executives. This is one reason you’ll see Buicks traveling Beijing boulevards, not Fords. (But it’s about more than the number of trips the CEO takes. It’s about whom a company sends to China. See the sidebar “Who’s on Your Side of the Negotiating Table?”)

## 人际和谐

Renji Hexie (Interpersonal Harmony)

The Chinese sayings, “A man without a smile should not open a shop” and “Sweet temper and friendliness produce money” speak volumes about the importance of harmonious relations between business partners. While respect and responsibility are the glue that binds hierarchical relationships, friendships and positive feelings, or *renji hexie*, hold relationships of equals together. In the United States, the initial sizing up—the nontask sounding—takes minutes. In China, nontask sounding may last days, weeks, even months. And it includes home visits, invitations to sporting or other events, and long dinners during which everything but business is discussed. There’s just no other way.

All this can be hard on your liver. On the eve of negotiations between the chief executive of a U.S. firm and one from a major Chinese company, the Chinese hosted a lavish dinner at the best banquet hall in the city. The Chinese CEO proposed a toast: “Let’s drink to

*In China, the intermediary—not the negotiator—first brings up the business issue to be discussed. And the intermediary often settles differences.*



our friendship! We will have long cooperation! But if you aren't drunk tonight, there will be no contract tomorrow." The executive from the American firm matched him drink for drink—and couldn't remember how he got back to his hotel. The next morning he was greeted with a hangover, a big smile, and a fat contract. Indeed, Chinese negotiators do not understand the Americans' haste to get the deal done. For the Chinese, any attempt to do business without having established sufficient *renji hexie* is rude, and they can force the issue when necessary.

For instance, a vice president of a U.S. computer maker went to Beijing hoping to close a deal with the Ministry of Education. The local sales team had been working with an intermediary on this case for more than six months, and the intermediary arranged a dinner party with a deputy education minister for the evening the vice president from the U.S. company arrived. Many toasts to mutual cooperation were made, and in accordance with what

the American executive had been briefed to do, no business was discussed. The next day, the vice president paid a visit to the deputy minister. Sensing that the atmosphere was right based on the previous night's social gathering, the vice president asked, "So, when can we sign the contract?" The deputy minister politely replied, "Well, Mr. Vice President, you just arrived in Beijing. You must be tired. Why not take your time and see the city first?" It took a week of sight-seeing to get negotiations back on track.

In the final analysis, trust and harmony are more important to Chinese businesspeople than any piece of paper. Until recently, Chinese property rights and contract law were virtually nonexistent—and are still inadequate by Western standards. So it's no wonder that Chinese businesspeople rely more on good faith than on tightly drafted deals. While contracts are becoming increasingly important and more likely to be enforced now that China has joined the WTO, Chinese negotiators still insist

## Who's on Your Side of the Negotiating Table?

The people who represent your company in China will make all the difference when it comes to negotiating deals and forging business relationships. More than 15 years ago, Nigel Campbell, a leading expert on business strategies in China, concluded that it was essential to have the right people participating in negotiations: Foreign companies that had Chinese-born executives driving the negotiations succeeded. Others did not.

In 1994, Ford ignored this sage advice when it appointed Jim Paulson president of Ford of China. Paulson, an affable Midwestern engineer and a lifelong Ford man, had worked on plant-related issues in several foreign countries. In trying to get an entrée for Ford into China, he faced a complex negotiation environment. Governments of both countries were embroiled in fights over intellectual property regulations. GM, Toyota, and Nissan lurked in the background. Substantial product changes needed to be negotiated. Most important, Paulson didn't possess a deep cultural understanding of his Chinese counterparts. Later, in *Time* magazine, he lamented, "We tried to find out

more about how they were arriving at their decisions, but we didn't have enough Chinese-speaking people to establish close contact with the officials in Shanghai."

Meanwhile, arch competitor GM had an ace in the hole named Shirley Young. Born in Shanghai, Young spoke fluent Mandarin. Her father was a war hero. Her stepfather had served as China's ambassador to the United States, the UK, and France. Young, who had worked as a consultant to GM since 1983 and joined the company in 1988 as vice president of consumer market development, boasted an Ivy League education and a wall full of awards, including Woman of the Year for the Chinese-American Planning Council.

Young offered another advantage: She brought great *guanxi*. Even though Ford had been one step ahead in the initial bidding phase, Young was able to pass the final victory to GM. By 1997, 100,000 midsize Buick Regals had been produced at a new billion-dollar assembly plant in Shanghai.

Oddly enough, Ford had the ideal person for the job—Dr. Lawrence T. Wong. An engineer raised in China, Wong possessed all

the language and cultural skills that Young had, and he was president of Ford of Taiwan. He even had the critical engineering expertise that Young lacked. Perhaps the best measure of Wong's capabilities is his current position. Since 1996 he has held the reins of the Hong Kong Jockey Club—the most important horse-racing operation in the world, with annual revenues of \$12 billion, and the largest charitable donor in all of China. How could Ford, blessed with such a trump card, have overlooked him?

Eventually, Ford wised up and appointed an ethnic Chinese executive to a senior position in Beijing in 1998—Mei-Wei Cheng. In April 2001, Ford completed a 50–50 joint venture agreement with Chongqing Chang'an, China's third largest automaker, to produce 50,000 small cars. It took Ford some five years to begin recovering from its shame in Shanghai. Our subsequent interviews with executives at Shanghai Auto confirmed that the key mistake Ford made was in Dearborn; that is, not selecting someone like Larry Wong to lead Ford of China in the first place.



*When bargaining in China, be prepared to discuss all issues simultaneously and in an apparently haphazard order. Nothing is settled until everything is.*

on satisfaction with the spirit of the deal. (For more on this concept, see Ron S. Fortgang, David A. Lax, and James K. Sebenius's article "Negotiating the Spirit of the Deal," HBR, February 2003.)

Interestingly, one aspect of Chinese negotiation strikes Westerners as quite impolite. This is the common Chinese tactic of threatening to do business elsewhere. It's called *liangshou zhunbei* (two-handed preparation) and carries the additional implication that the Chinese have already begun talks with competitors. Most Westerners feel insulted when Chinese negotiators talk about doing business with competitors, but the Chinese believe they are just stating the obvious and not creating reason for mistrust. This is simply part of their haggling culture.

If the Westerners do their best to maintain sufficient *renji hexie*, the Chinese will consider their counterparts' interests even if negotiations get rocky. When a corporate vice president of a manufacturing company threatened his Chinese counterpart with a lawsuit demanding final acceptance of a signed contract, the Chinese executive responded, "Go ahead. You may win the case. But you will be finished in the China market." At a subsequent meeting, the Greater China general manager with the manufacturing company, schooled in the Chinese style of business negotiations and possessing good *renji hexie* with the Chinese executive, was able to smooth things over by appealing to their mutual long-term interests. The Chinese customer responded, "This is the right attitude. I will see what I can do to expedite final acceptance."

## 整体观念

Zhengti Guannian (Holistic Thinking)

As we have said, the Chinese think in terms of the whole while Americans think sequentially and individualistically, breaking up complex negotiation tasks into a series of smaller issues: price, quantity, warranty, delivery, and so forth. Chinese negotiators tend to talk about those issues all at once, skipping among them, and, from the Americans' point of view, seemingly never settling anything. Those Chinese negotiators who practice *zhengti guannian* want long descriptions of background and context and will ask a thousand questions.

This difference in style can frustrate West-

erners accustomed to measuring progress in a linear way. To people like Shipwright, the oil industry executive, you're halfway through the negotiation when you've discussed half the issues. Americans consider the negotiations finished when they have come to the end of the list. Not so their Chinese counterparts, who feel it's at that point they can begin thinking about the package as a whole. In our experience, this difference in thinking styles is the source of the greatest tension between negotiation teams. It also often causes Americans to make unnecessary concessions right before the Chinese announce their agreement. When Tandem Computers attempted to sell its Non-Stop servers to China Telecom, the sales manager offered an additional 5% off the sale price if the Chinese negotiator agreed to take delivery within a month. The Chinese purchasing manager responded, "We're not really in a hurry, but since you have some room, you might as well give us the price break." For Americans bargaining in China, the message is clear: Be prepared to discuss all issues simultaneously and in an apparently haphazard order. Nothing is settled until everything is.

How then can one know if negotiations are progressing well? It is a good sign if higher-level Chinese executives attend the discussions or if their questions begin to focus on specific areas of the deal. Also, Americans should look for some recognizable softening of attitudes and positions on some issues. If they notice the Chinese increasingly talking among themselves in their own language, it could mean they're trying to decide something. Additional signs of progress include Chinese calls for more meetings, requests to bring in the intermediary, or questions about "extras" such as overseas training.

## 节俭

Jiejian (Thrift)

China's long history of economic and political instability has taught its people to save their money, a practice known as *jiejian*. According to market research firm Euromonitor International, mainland Chinese save nearly four times as much of their household income as Americans do. The focus on savings results, in business negotiations, in a lot of bargaining over price usually through haggling.

Chinese negotiators will pad their offers

with more room to maneuver than most Americans are used to, and they will make concessions on price with great reluctance and only after lengthy discussions. In fact, we have often seen Americans laugh at the Chinese base price or get angry at “unreasonable” Chinese counteroffers. To make matters worse, the Chinese are adept at using silence as a negotiating tactic. This leaves Americans in the awkward position of negotiating by asking questions, directly or through the intermediary. In defending price positions, the Chinese use patience and silence as formidable weapons against American impatience and volubility. Westerners should not be put off by aggressive first offers by the Chinese; they expect both sides to make concessions eventually, particularly on prices.

Our advice to Westerners: Instead of whispering to your colleagues, “Why are we here?” expect padded prices and ask the Chinese, “How did you come up with that amount?” If the Chinese talk about a competitive offer, then it’s time to ask about which competitor and which product, delivery schedule, warranty terms, and so on. This can take time, but it pays off. Recently, we saw one Chinese counteroffer for a computer system start at \$2 million; after four weeks of questions, discussions, and haggling, the final agreement came to more than \$4 million in the Americans’ favor.

## 面子

**Mianzi (“Face” or Social Capital)**

In Chinese business culture, a person’s reputation and social standing rest on saving face. If Westerners cause the Chinese embarrassment or loss of composure, even unintentionally, it can be disastrous for business negotiations. The Chinese notion of saving face is closely associated with American concepts of dignity and prestige. *Mianzi* defines a person’s place in his social network; it is the most important measure of social worth. Sources of face can be wealth, intelligence, attractiveness, skills, position, and, of course, good *guanxi*. But, while Americans tend to think in absolute terms—a person either has prestige and dignity or doesn’t—the Chinese think of face in quantitative terms. Face, like money, can be earned, lost, given, or taken away.

Honeywell-Bull offers a good example of the importance of saving face. The company

had won negotiation rights for an order of 100 ATMs from the Bank of China. Toward the end of the process, the bank buyer asked for deeper price cuts. To him, the sticking point wasn’t just a matter of thrift. He told Honeywell-Bull representatives, “If the price isn’t reduced further, I will lose face.” This is Chinese for “The deal will be off, and we’ll talk to your competitor.” The seasoned Honeywell-Bull executive responded that he had some room to move in the bid, but the lower price would not allow for training Chinese managers in the States. The Chinese representatives then asked for a ten-minute break and came back smiling, agreeing to all the terms. In retrospect, the training program was much more important to the Chinese executive. The U.S. trip for his staff yielded him more *mianzi* than the requested price break.

By contrast, when those negotiating with the Chinese break promises or display anger, frustration, or aggression at the negotiation table, it results in a mutual loss of face. In the West, sometimes a mock tantrum is used as a negotiating tactic, but in China it invariably backfires one way or another. Causing the Chinese business partner who brought you to the table to lose *mianzi* is no mere faux pas; it’s a disaster.

## 吃苦耐劳

**Chiku Nailao (Endurance, Relentlessness, or Eating Bitterness and Enduring Labor)**

The Chinese are famous for their work ethic. But they take diligence one step further—to endurance. Where Americans place high value on talent as a key to success, the Chinese see *chiku nailao* as much more important and honorable. That’s why Chinese children attend school 251 days per year, in contrast to the Americans’ 180-day school year. Hard work, even in the worst conditions, is the ideal: Witness how Chairman Mao’s 18-month Long March endeared him to the Chinese people. And that ingrained industriousness now drives the country’s burgeoning free-enterprise economy.

We see Chinese diligence primarily reflected in two ways at the negotiation table. First, the Chinese will have worked harder in preparing for the negotiations than the Westerners. Second, they will expect longer bargaining sessions; throw in jet lag and late-night business entertainment, and the Westerners are in for an exhausting experience. Their Chinese counter-

parts know to take advantage of this.

During negotiations, we recommend three tactics to demonstrate your own *chiku nailao*. The first is to ask questions—for, as bargaining expert Chester Karrass suggests in *The Negotiating Game*, it's "smart to be a little bit dumb." Asking the same questions more than once—"I didn't completely understand what you meant. Can you explain that again?"—can expose weaknesses in the other side's arguments. Once this occurs, those across the table will be obligated to concede. Our Mr. Shipwright, for example, would have gotten further during the negotiation had he responded to the Chinese side's repeated demands for answers about delivery in this way: "Apparently, delivery is a key issue for you. Can you remind me again why?" The Chinese admire and respond to relentlessness.

Second, show endurance by going to great lengths to do your research and then educate your Chinese counterparts. It's important to explain your company's situation, needs, and preferences, but condescension will kill this approach, so be careful. One executive long experienced in negotiations with the Chinese says it's not a bad idea to supply Chinese customers with intelligence about your own competitors or to couch arguments in the context of "internationally recognized business practices" in the service of education. And because showing is better than telling, it's important to demonstrate prospective results. A Groupe Bull of France executive was trying to sell a smart-card system to Shanghai Pudong Development Bank, and he knew it would be a tough sale. So he arranged for his Chinese equal to come to Paris for a demonstration of the technology's maturity. The education worked: Today, some 2 million smart cards are being used in thousands of Shanghai's ATMs and point-of-sale machines, as well as in all the taxicabs.

Finally, showing patience is a sign of *chiku nailao*. The Chinese rarely make concessions immediately following persuasive appeals without broader consultation. Indeed, the combination of group decision making and social status (*shehui dengji*) can make things quite complicated on the Chinese side. Moreover, the Chinese are skilled in using delay as a persuasive tactic. Therefore, you need the full backing and understanding of your home office so you can bide your time. Meanwhile, the Chinese can use apparent lulls in the negotiation cycle to con-


sider any new information or develop more questions. In the end, the investment in time pays off. For instance, we saw a U.S. manufacturer of a retail scanner system take six trips to southern China over a one-year period to make the sale. The sale was made at a profit, but the same transaction would have taken a few quick visits in the States, if that.

Though Americans would do well to prepare a list of concessions they would be willing to make in advance of the negotiations, these should not be automatically granted at the negotiation table. Once again, Americans should emulate their Chinese counterparts and exercise patience, carefully reconsidering each concession away from the social pressure of the formal negotiations.

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Negotiating business deals in China will remain one of the most daunting and interesting challenges facing American executives during the next few decades. Indeed, we might have said the same thing back in 1789, when Yankee clipper ships first plied the Pearl River, passing Hong Kong on the way to Canton (now Guangzhou).

Fortunately, smart Western bargainers have always made money in China—and despite the difficulties in communication, the future bodes well for the new Sino-Western business class. The Chinese are working hard to catch up and compete with Western-style enterprises. And, the historical slighting of the merchant class notwithstanding, business schools are sprouting up all over the mainland, where Chinese students are learning about concepts like corporate image, brand equity, and the ins and outs of intellectual property.

For Westerners eager to do business in China, here is the last word: Move now, and learn the rules of the game by developing the *guanxi* needed to grow your business there. Don't expect immediate results. Old friendships work their magic through time; every year invested in China now will pay off in the future—because in a world of millennia-old memories, relationships of the moment need long and patient nurturing. 

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# The Chinese Negotiation

## Further Reading

### ARTICLES

#### [The Hidden Challenge of Cross-Border Negotiations](#)

by James K. Sebenius  
*Harvard Business Review*  
March 2002  
Product no. R0203F

Sebenius looks beyond the difficulties imposed by deep cultural differences—to an equally treacherous aspect of cross-border negotiations: the specific *processes* people from different regions use to come to agreement. These decision-making and governance processes can differ widely from culture to culture, not only in terms of legal technicalities but also in terms of the behaviors and core beliefs that drive them. Numerous promising deals have failed because participants ignored or underestimated process differences.

To prepare for process differences, clarify who the players are, who decides what, what informal roles people play that might make or break the deal, and how resolution is actually reached. Then design a strategy that anticipates obstacles before they arise. For example, decide whether it's most effective to use a top-down approach (going directly to high-level counterparts), consensus (getting agreement among the other side's negotiating team, broader enterprise, and external stakeholders), or coalition building (gaining the support of a subset of players who can override dissent).

#### [Negotiating the Spirit of the Deal](#)

by Ron S. Fortang, David A. Lax, and James K. Sebenius  
*Harvard Business Review*  
February 2003  
Product no. 3051

Whereas "The Chinese Negotiation" focuses on stylistic differences *during* the negotiating process, this article examines the pitfalls negotiators can encounter *after* they've put a deal into practice. Unless Chinese and Western negotiators clarify expectations about how deal

participants will work together, communicate, resolve conflicts, and handle surprises, a deal that seemed mutually beneficial may sour.

To many Chinese, the spirit of the deal—specifically, trust and harmony between the players—is more important than any piece of paper. With property rights and contract law virtually nonexistent, Chinese traditionally rely more on good faith than tightly drafted deals to resolve conflicts and handle post-deal misunderstandings. Westerners, by contrast, tend to emphasize the letter of the law more.

Certain conditions make Chinese-Western negotiations particularly ripe for misunderstandings concerning the spirit of the deal—namely, cultural differences and the Chinese emphasis on using intermediaries during negotiations. Bargainers can overcome these conditions by clarifying expectations before finalizing a contract and involving in the negotiating process those who must make the deal work in practice.

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