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Negotiating with the Chinese: lessons from the field

by

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Abstract

Negotiation is a context sport. It demands attention to multiple motivations, agendas, and preferences. Negotiation across culture adds to context the cultural realities of the negotiation dance. Without an awareness of the appropriate cues to follow and a sensitivity to the possibilities for action that open and close throughout the negotiation process itself, Westerners face little possibility of successful conclusion to negotiation in a cross-cultural context.

This article makes explicit seven Chinese principles driving the act of negotiation in a Chinese context. Within the framework of an actual negotiation for the delivery of a HRM training program for Chinese managers, the author describes what these principles look like as they occurred and how he dealt successfully with them both from a theoretical and a practical perspective. In the face of Chinese negotiation principles, the article suggests a range of practical strategies for successful – and respectful – negotiation in China.

Negotiating with the Chinese: some lessons from the field

Chinese society is based on inequalities and on fierce competition between different groups. In Chinese law courts, you will not find any images of Blind Justice weighing the scales, impartially offering equal justice to all. In its place is imperial fiat, personal power to override rules and regulations, and a long tradition of negotiation to win advantages for oneself and for one's group.

Blackman, 1997:4

This paper is about subtlety. It is about understanding the rules which are difficult to name but which are acted out before our eyes in the range of behaviors modeled to us about our cultures through day-to-day interaction. The focal behavior of this paper is negotiating and the focal culture is Chinese. The paper will outline some of the key negotiating strategies enacted and favored by Chinese negotiators as part of the ritual of building and living a business relationship in a Chinese context. In the process of describing the principles of effective negotiation in China, the paper will demonstrate the application of the principles named by tracing the life of a negotiation for a contract to deliver a human resource management training program in a Chinese State Owner Enterprise as experienced by myself. On good days, principles work. In this case, the successful negotiation of the agreement flowed out of a religious application of the tactics and processes outlined in this paper.

Culture and Negotiation

Culture has been described as a problem solving mechanism, a collection of wisdom built over great periods of time and reflecting the experience of a people in a particular context concerning how to effectively deal with issues of life (Schein, 1985:14). Socialization in a cultural setting leads to the development of a way of thinking about issues. Gannon (1994:5) describes such approaches to thinking as *cultural mindsets*, a term by which he

means “basic ways of thinking, feeling, and action that occur simply because of the fact that people are members of a particular society”. Gannon’s approach to examining culture is to search for some phenomenon or activity of the culture that all or most of its members consider to be very important and with which they identify closely. He then uses this phenomenon as a metaphor for describing and understanding some essential features of the society (Ibid. 1994:7). His work, as has been true for many researchers of culture in the Western tradition, was influenced by the tradition of cross-cultural psychology and anthropology, in particular by researchers who emphasized frameworks detailing a small number of “factors or dimensions” used to compare cultures to each other. Gannon notes three sources of prior research that significantly influenced his team’s work. The first of these was the writings of Kluckhohn and Strodtbeck (1961). These cultural anthropologists emphasized six dimensions of analysis, including assumptions about the nature of people (good, bad, or a combination thereof), the nature of the relationship between people and nature (harmony with nature or subjugating nature), the relationship between people (primacy of the individual or of the collective), the primary mode of activity in a society (accepting the status quo or acting on the world to change things), the nature of space in a society (private vs. public), and the society’s dominant temporal orientation (past, present or future). Kluckhohn and Strodtbeck found that they could identify dominant cultural orientations in the societies they studied through the use of these six orientations, a process of identification that was used by other researchers as a cultural shorthand for many years.

Gannon notes that similar research by Edward T. Hall (Hall & Hall, 1990) resulted in a second dimensional classification system focused on the communication patterns found in cultures. Hall identified four dimensions of differentiation. These included context (the amount of information which must be explicitly stated if a message is to be communicated successfully), use of physical space (appropriate interpersonal distance in communications), use of time (one thing at a time vs. simultaneous activities), and information flow (the structure and speed of messages between individuals and organizations). Hall used these dimensions to array cultures along a meta-dimension which he termed “high-context vs. low context” societies (1990:14).

The final, and perhaps best known “dimensional” approach to the study of culture in more recent years was developed by Geert Hofstede (1980, 1991). His study of 40 local IBM offices around the world has been perhaps one of the most referenced (and most frequently disputed) frameworks of cultural analysis to this point in cross-cultural study. He originally developed profiles of the countries studied across four dimensions of basic cultural values, including power distance (degree to which individuals accept hierarchy and unequal distribution of power and advantage), uncertainty avoidance (the degree to which people are willing to risk), individualism (degree to which individuals see themselves as either free agents or members of a group), and masculinity (degree to which people accept aggressive and materialistic behavior). (Hofstede, 1980:45) Additional research carried out in China after the opening of its borders to direct western scholarly examination resulted in a fifth dimension – Long Term / Short Term Time Orientation (the degree to which issues were focused on short-term as opposed to longer term timeframes). (Hofstede, 1991)

Gannon comments that though these three dimensional approaches have been extremely influential in the study of culture across societies, their use has been controversial. Construction issues of necessity leave out many of the more subtle dimensions of “cultural mindsets” simply as a function of the limitations inherent in developing them into instruments which can be practically completed and used by practitioners. They are, in effect, “instructive but somewhat lifeless and narrow because they leave out so many facets of behavior.” (Gannon, 1994:11) Nonetheless, they provide useful initial frameworks for exploring and describing some of the underlying cultural drivers which influence behavior in any particular cultural context. This paper will use them as appropriate to highlight some of the differences in principles which at times cause difficulties in the negotiation processes experienced in a Chinese context.

Negotiation Processes in China

Westerners departing for China are frequently told that the Chinese “value harmony, good relationships, and politeness.” (Blackman, 1997:xi) We are told that ritual is important, that agreements take time, that the Chinese are shrewd but that, through frank discussion, opportunity awaits. We are generally unprepared for the remainder of what awaits. When Westerners arrive in China and begin their negotiations they are frequently confronted with “fierce adversarial bargaining that appears to lack the politeness and consideration they expected. The high pressure of such bargaining, a process which is often backed with threats and pep talks about the way things are done in China, takes them completely by surprise.” (Blackman, 1997:xi) It catches us off guard, resulting in recrimination, many sleepless nights (on both sides), and frequent breaches of cultural etiquette on the part of westerners which cause the negotiations process to extend longer than it might or bring it to premature conclusion, to the loss of all involved.

Blackman (1997:xii) indicates that there are three main factors which have a strong emotional and practical impact on Western business people doing business in China. The first, in her experience, is the method and manner by which the Chinese conduct the negotiations. This factor is touched upon above in terms of the determined and, at times, confrontational disregard for the others’ needs. The Chinese approach to “the truth”, modeled by a willingness to fabricate “facts”, represents an additional stylistic pattern which causes difficulties since it disregards basic western ethical principles of business. Both in areas concerning the economics of the contract and those having to do with “regulations” or “common practice” which are claimed to hold precedence, the Chinese have traditionally misled foreign negotiators with half truths and incorrect “information”.

The second major dilemma for western entrepreneurs is the influence of the surrounding socio-political and economic environment which impacts all aspects of the negotiation. This factor encompasses historical elements, such as the traditional distrust which Chinese have of outsiders who have in the past negotiated arrangements to the detriment of their Chinese counterparts. It also flows from the current level of bureaucratic

complexity in China which requires all significant decisions to be authorized by many levels of frequently competing interests at the personal, district, municipal, state and national levels. Such duplications of function and conflict of interest cause costly time delays in securing final negotiation settlements. They can also significantly increase the cost of the final agreement.

The third area of complication in Blackman's experience is that of culture itself, including such areas as the meaning implied by individual behavior and the complications of language and cultural expectations. Central to areas of difference and the potential of misunderstanding in this area are the meanings (and expectations) associated with different levels of relationship within the Chinese context. For example, the title *old friend* can appear to be a charming interpersonal style of greeting, but it implies an expectation that the recipient will respond to requests for favors and special services which would not be expected of "new friends". *Old friends* demonstrate loyalty and support, something which western business people clearly do, but in circumstances where the relationship is founded on broader bases of mutual experience and trust.

The above three areas, amplified by Pye (1982) in relation to China and Gulliver (1979) from the perspective of cross-cultural negotiation processes more generally, imply the usefulness of understanding the set of practices and strategies associated with the cultural assumptions and principles held by Chinese. Such understandings clearly form the basis for engaging and working successfully through contract negotiations in the Chinese context.

Chinese Negotiating Principles and Practices

Although negotiation is a complex and sophisticated process if carried out well, the behaviors associated with the "dance" enacted by the key players can shed some light on

deeper principles and assumptions underlying and giving direction to its practice. The remainder of this paper will name and describe principles useful to the Western negotiator in approaching successful negotiations in a Chinese setting. The principles drawn from the successful closing of a contract to deliver a management seminar for a large Chinese State Enterprise yield some interesting and potentially valuable lessons. The principles discovered through this individual negotiation experience are outlined briefly in Table 1 and expanded in the text that follows. The paper weaves back and forth between the description of principles and practices of Chinese negotiation in general, potential responses to behavior driven by those principles, and the specifics of the actual negotiation itself. The goal is to demonstrate what the Chinese principles look like in the real world and to document how one Westerner responded—successfully—to them in practice. The format of the presentation of the data is informal – frequent use of the pronoun “I” – to highlight the reality that the negotiation documented represents the limited experience of one individual in one situation. Subsequent application of the principles, however, has proven them to be reliable predictors of Chinese behavior and useful guides to negotiation tactics. As a minor editorial guide, please note that discussion of Chinese principles and practices is in plain text while the *background and description of the negotiation itself have been italicized*.

Background and Context of the Human Resource Management Seminar Contract

I have been actively running organization development seminars in China since 1991. My first seminar was four weeks in length, six days a week. I received no professional fees for this work. I carried it out to “open the door” to China, and to have an opportunity to tour around the Beijing area. All my expenses were covered by my Chinese “hosting Unit”, a joint venture operation linking Chinese State Owned Enterprises (SOE’s) with North American consulting firms. Subsequent to this program, I returned to China on five separate occasions, two of them sponsored by this same agency, another two sponsored by a senior management training institute associated with the National Petroleum Corporation, and the last arranged by the Ministry of State Enterprises (MSE).

For most of these seminars, with the exception of that sponsored by the MSE and one sponsored by a management training institute, I received professional fees of approximately \$1000 (Canadian) per day. On each of

the trips I contacted various SOE's and ran a half-day or one day seminar for them at no additional cost as a strategy of building and maintaining my relationship with the State coordinating agency. Most of the seminars for which I had been contracted had been initiated by the Chinese side or by third-party organizations who had contacted me to run sessions in my area of expertise as part of a larger contract or training initiative. I had decided in 1997 that I wanted to more actively promote my professional engagement in China and that my relationships at the State Coordinating Agency (SCA) were probably a good place to start. With this motivation, I returned to China in the early summer of 1997 and set up a meeting with my primary contact at SCA to discuss what opportunities there might be to pursue additional engagements in China.

Initiation of the Human Resource Management Seminar Negotiation

My initial call was to Madame Wang, the Co-Director of SCA. I had known both of her predecessors, having run my initial 4 week seminar for the initial director of the Centre, Mr. Zhang and having run seminars in China and hosted the subsequent Director in my home in Canada while he was on a visit. Through my contacts with the senior management trainees at the National School of Administration, I knew that the SCA was planning a major training initiative related to management skills, especially Human Resource Management (1.1). I knew that SCA had the mandate to arrange for all types of training for international management practices through North American consulting sources and, through a request that I made for information about SCA programs, I discovered that they had fallen behind in the “soft” management training side (1.1). I also knew that they had just signed an agreement with a North American university to provide MBA courses for some State Enterprises but suspected that it would be several years before this became operational due to the bureaucracy on both sides related to such an agreement (1.1).*

I contacted Madame Wang and indicated that I was in Beijing on another management training venture [implication: I had other clients who were interested in my HR training services in China (1.3)] and would like to drop in to talk about business opportunities which I thought she might find interesting. She indicated a warm interest in meeting with an “old friend” and we set up an appointment. When I arrived we discussed past involvements which we had had and she inquired about the business opportunities which I had mentioned. I indicated that there were three issues which I wanted to discuss with her (1.2). The first was my willingness to run an informal (and free) half-day HR seminar for a group

* References are to the numbered strategies for negotiator response which follow each principle as outlined in Table 1.

of managers if she thought it was appropriate during the time of my current stay in Beijing (1.1). She indicated that she would like very much to have this happen and would get back to me with a date. The second issue was my general interest in running human resource management seminars in cooperation with my friends at SCA, though this was more of a long term vision (1.3) and not something that had to be decided today. The third issue was a desire on my part to build a relationship between SCA and my University in Canada, something which I thought could be mutually beneficial to both sides. We then spend about an hour talking in general terms about what kinds of seminars around which we might collaborate in the future and what programs the university might be able to provide to the SCA. We ended the discussion with warm wishes for each other and statements of intent to move forward on all three projects. One week later I ran a half day seminar to which Madame Wang invited several high ranking managers from the SCA as well as a group of middle managers. The seminar was successful and delivered at no cost to the SCA.

Chinese Negotiating Principle	Chinese Negotiating Practice
1. Statements of position demonstrate weakness.	<ul style="list-style-type: none">• Never betray interest in another's product or service, even if you desperately need it. Let the other side make all initial statements position and concession.

The Chinese believe that, in order to be in control of the process, it is best to let the other party drive the opening of the negotiation in terms of proposal of products or services. In the way, especially at the beginning of the process, the Chinese side can come to understand more about the others' motivation and be in a better position to bargain hard later on. Pye observes that "once the negotiating exchange begins, the Chinese seem to become surprisingly passive, expecting that the other party will take the initiative in proposing concrete deals...This posture seems to be part of a conscious negotiating ploy." (Pye, 1982:64). The approach represents, in negotiating parlance, a "position based" as opposed to "interest based" strategy to negotiation (Fisher, Ury and Patton, 1991). The Chinese desire is to have the westerners state their position first and in as much detail as possible. The first statement represents, to the Chinese, the other side's

Table 1
Summary of Chinese/Western Negotiation Behavior Options

Chinese Negotiation Principle	Chinese Negotiation Practice	Western Negotiation Responses
1. Statements of position pinpoint weakness	<ul style="list-style-type: none">• Don't show interest in others' service or product• Let them make initial statements of position & concessions	1.1 Gather information about Chinese needs <i>before</i> meeting 1.2 Present many areas of potential interest in collaboration, not one. 1.3 Show lack of concern about short term dates and commitments
2. Maintain advantage of surprise – don't let others side know what you are thinking	<ul style="list-style-type: none">• Use time strategically• Put off response to proposals until last moment• Close to deadlines make demands for concessions or changes in contract	2.1 Plan on not signing contract on any specific trip. 2.2 Use trusted middle person to clear up misunderstandings & gather data 2.3 Delay commitments thru reference to regulations and needs for superior review
3. Past gains are basis for future negotiations.	<ul style="list-style-type: none">• Use past preferential contract amounts or delivery conditions as basis for current negotiations.	3.1 Be prepared to demonstrate that your Company has lost money in China and that this is not fair.
4. Relationship is important -demonstrated by loyalty to family and collective	<ul style="list-style-type: none">• Use "old friend" designation to secure concessions or peripheral advantage.	4.1 Use "old friend" status to request help with pricing & other structures.

Table 1
Summary of Chinese/Western Negotiation Behavior Options (cont.)

Chinese Principle	Chinese Negotiation Practice	Western Negotiation Responses
5. Truth is not important – what is important is winning the negotiation	<ul style="list-style-type: none">• Refer to real or spurious regulations to get concessions	5.1 Use 3 rd party to search out regulations for accurate information. 5.2 Use policies and regulations from your own company to counterbalance.
6. The superior makes all decisions	<ul style="list-style-type: none">• Refer all significant decisions to highest ranking person or committee.	6.1 Plan frequent breaks in negotiation to allow consultation with superiors.
7. Attack opponent when he thinks he has been successful.	<ul style="list-style-type: none">• When negotiation is over, change some element of contract in favour of Chinese side.	7.1 Know your bottom line and don't budge from it. Be willing to walk away from a "bad" contract.

weak spot, since it pinpoints both their interests and, if handled skillfully enough, pushes them to reveal crucial timeframes, the knowledge of which will make negotiation much easier for the Chinese side. This position, or general indication of area of interest, provides the Chinese with a starting base to negotiate against. The principle of not betraying Chinese interests to westerners reflects Hofstede's "uncertainty avoidance" value (as a strategy for avoiding risk) as well a Kluckhohn and Strodtbeck's dimension related to basic assumptions about the nature of people. Many Chinese assume that foreigners are essentially "bad" in nature, based on the primacy of materialism in Western cultures. Past (and some present) negative experiences of the Chinese in dealing with Western nations plus an aversion to risk tend to encourage Chinese negotiators to

approach situations of significant interaction (such as negotiation) with a framing mindset of caution.

Potential Responses to Pressures for Initial Proposals and Concessions

1.1 Gather information about the needs of the Chinese before you even consider meeting with them. In this way, you can present yourself and your product or service in ways which are immediately relevant to their interests, catching their attention while highlighting, in an understated manner, your own knowledge of their current business drivers. Your presentation should focus on what it is you have without bluntly stating the Chinese business needs, since they may perceive their inadequacy in some arena as a potential weakness. Identification of the need directly may lead to loss of face, both related to the need made explicit and potentially related to other related issues which the first may surface (Blackman, 1997:52). If you target your presentation clearly enough, the connection will be made. Particularly effective is the willingness to demonstrate your capability to deliver appropriate services through small demonstration sessions or mini-programs. Delivered at no cost, these demonstrate your sincerity to the relationship as well.

1.2 Present a number of potential areas of involvement, including the one which you know they particularly need. With the perception that you have a wide spectrum of interests and capabilities, it becomes more difficult to target one in particular as the key negotiating area, since the Chinese side will not know which of the areas mentioned is your primary interest. This is a particularly effective strategy if you are indeed interested in a number of different project possibilities and can maintain a long term focus on which one comes through first.

1.3 Be prepared to demonstrate lack of concern over specific deadlines or dates of delivery. This does not imply that you indicate a lack of interest in negotiating a contract, but rather that you frame your interests as long term rather than immediate in nature. The further away you can project delivery of a product or service the better, in that the Chinese side will perceive that you are not desperate for the deal to

proceed, putting them at a perceived disadvantage if they perceive that you are capable of delivering a service which they know they need. The approach also implies that you have other sources of revenue, again projecting a distanced need for the project on your part.

Second Meeting and Next Stage Communications Concerning the HR Seminar Negotiation

About 2 days after I delivered the half-day seminar at the SCA (in June), Madame Wang called to ask if it would be possible to have a meeting. It concerned the possibility of running a human resource management seminar in the far western part of China. We met at her office the next day. Prior to the meeting I met with my Chinese colleague at National Administration Institute and questioned him about specific details of the Western SOE operation, including human resource developments at this particular location. Through this meeting I managed to develop a good overview of the situation at the enterprise. (1.1).

The next day Madame Wang began our discussions by reviewing our meeting of the previous week. She indicated that there was interest in having me deliver a seminar in Urumqi (Western China) and listed a number of HR topics, all of which I had provided her with as part of my review of subject matter that I was interested in delivering. She requested that I develop an outline for such a course prior to my departure for Canada and submit this, along with costing requirements, for her review. Since I was scheduled to leave the next day I was placed in a position of either trying to develop an inappropriate seminar schedule including costing, or having to find a way to delay. I told her that I would need to confer with my business partners to confirm my availability for the requested dates in November but that I could guarantee her a completed proposal within a week of my arrival in Canada (2.3). She countered that the management group in Urumqi required the outline and budget immediately to approve the proposal. I indicated that I had committed to my colleagues who acted as a management group in my Company that we would jointly develop time commitment plans for the upcoming year and that, based on my commitment to them, I would have to meet with them first. This was our Company's management policy (2.3). In fact, I am the President of a two person Company with sole discretion around such commitments. However Madame Wang respected my declared "Company policy" and agreed to this revised submission timeframe for the proposal.

Upon return to Canada I drew up an outlining for the workshop along with a detailed listing of requirements related to budget. These included professional fees (\$1,100US/day under the assumption that price would be

a bargaining point and I would eventually end up around \$1000 Canadian) and other related training and equipment expenses. I faxed the proposal to Madame Wang. Then I waited. We had discussed a tentative delivery date in December. When I had not heard anything by late September, I contacted a colleague at the National Administration Institute and asked him if he could contact her to see if there was a problem with the proposal (2.2). This colleague (Mr. Zhou) had come to Canada several years previously and lived with me for six months during which we had developed a tight bond of personal and professional friendship.

Zhou contacted Madame Wang, indicating to her on my behalf that I was concerned with the impending timing of the seminar. I asked him to indicate to her that I would be traveling through Beijing in December anyway, so that, even if the seminar was postponed [which was my suspicion given the organizational restructuring that was going on in China at the time], I would look forward to meeting with her informally at that time (2.1). Almost immediately I received a fax from Madame Wang indicating that the seminar had indeed been postponed and she would look forward to meeting with me in December. In a subsequent telephone conversation, Zhou indicated to me that, through his discussion with Madame Wang, he had discovered that she had known about the postponement for over a month but was reluctant to notify me due to the initial pressure she had put on me. He indicated that there were also “some budgeting issues” about which Madame Wang had been vague. I responded with warm thanks to Madame Wang and indicated that I looked forward to seeing her in December.

Chinese Negotiating Principle	Chinese Negotiating Practice
2. Maintain the advantage of surprise – don’t let the other side know what you’re thinking.	<ul style="list-style-type: none">• Use time strategically. Put off all reactions to proposals until the last moment and then bombard the other side with demands for his or her product at low costs and with immanent delivery dates.

In the English language, we recognize 14 forms of tense for each verb, a not insignificant recognition of the fact that, in the West, we see time as important. In Chinese, verbs themselves are not conjugated. Tenses can be ascribed, but this is done by adding additional words to the verb, not by changing the form of the verb itself. For example, the

word “come” (*lai*) becomes past tense by adding the past classifier *la* to it (*wo lai la* – *I came*). This may seem like an insignificant language difference, but it reflects a deep rooted cultural belief that time is not “of the essence” in important interactions. On the other hand, the Chinese are smart enough to keenly understand that, in Western eyes, “time is money”. And based on this understanding, they are shrewd enough to use this instrument which is of little personal interest to them but which could be a valuable tool in the negotiation process with others for whom it represents a significant currency.

The Chinese use time in two ways. Initially, they may delay making any commitment to agreement. This strategy is based in the belief that the Westerners have traveled great distances at some expense to negotiate the contract. If there are delays, the Chinese expect that westerners will be under increasing pressure, both in terms of face and, more practically, in terms of the costs both in coming to China in the first place and then

***Chinese bureaucrat’s comment:
“What’s a month in 4000 years of
history?”***

Blackman, 1997:66

subsequently of staying on in China. It has been the Chinese experience that westerners frequently make concessions in such cases to secure a signed agreement. Alternately,

Chinese negotiators can choose the strategy of pressuring for a decision on a contract with favorable terms for themselves. This pressure on their part may, of course, be genuine in that there may be pressure from their superiors to conclude an arrangement. However, given the wide range of options which China generally has in relation to suitors, such strategies are typically tactical in nature, used with the intent of building pressure for quick agreement to terms favorable to the Chinese.

The use of time in both of the above scenarios represents an excellent example of Hall’s cross-cultural dimension of “information flow”. It represents an understanding on the part of the Chinese that westerners frequently do not understand the context of decision making in China, focusing more on the achievement of the contract than the building of relationship. For those foreigners schooled in the concept of “high-context culture” interaction, the use of time on the part of the Chinese becomes a wonderful opportunity to use the “time problem” as a strategy to build relationship (by speaking frankly about their

needs) and further the negotiations at some future date (or sooner if the Chinese are truly in need of a service or product).

Potential Responses to “Time Related” Strategies

2.1 Plan on not signing a contract on any particular trip. Make it clear to your Chinese colleagues (and to those back home who may bring pressure for the completed agreement) that you would be quite willing to complete an agreement but that that is not the purpose of your visit. Declare the purpose of the visit to be “fruitful discussions” which may lead to the signing of a contract and be prepared to work as if a signed agreement is very significant. But declare at the beginning that you will be quite willing to return home without a signed contract because you know that, in the long term, there will be a successful negotiation between the two parties. Assuming that you have gathered sufficient data in terms of the real needs of the Chinese with whom you are negotiating, the pressure is now transferred back to them to bring closure to the negotiations. In the case of the negotiations related to this case study, my trip to China was not tied specifically to the negotiations at hand, making it quite plausible for me to indicate that I would be unable to sign any agreement that was not favorable for our company without “consultations” with the other members of the firm’s management team. I was clearly not under any pressure to complete an agreement, something that I suspected was not true for my counterpart.

2.2 Use a middle person trusted by both sides to intercede on behalf of the Western negotiators as a way of gathering more information about the reasons for the delay. Through using such an intermediary it is frequently possible to clear up misunderstandings or, better yet, pass or acquire valuable information which will move the negotiation forward quickly. In this case, my relationship with Mr. Wang was sufficiently deep and long-standing that he acted as an effective go-between for purposes of the negotiation. He was able to play this role without prejudice to his “Chinese commitments” since I was clearly committing myself to a long term relationship both to China and to his own Institute. The long-term commitment was

significant both to him, as a friend, and to his Institute since both had benefited through association with myself as a professional and my University in Canada. There was little suspicion as to our motives – these had already been proven over time.

2.3 In the situation where the Chinese bring pressure on a negotiator to quickly agree to conditions which do not meet company needs, the negotiator can use Chinese-style excuses for putting off the decision. He or she might say that they have to “refer the decision to my superior” or to a governing body back home. Or the negotiator might indicate that, in decisions above a certain amount, there is a decision making process which requires review by other parties. The Chinese will respect such statements because they fit with their own decision structures. Alternately, the negotiator can indicate that he or she needs to put the agreement in a “final form acceptable to our Company” and that it will require a short break (perhaps overnight) to complete the task. This provides a space for thinking on both sides while keeping the negotiation open. The use of the excuse that I had to pass the decision by my “management team” in Canada proved to be a reasonable and useful tactic in this situation since it fit with the Chinese expectations around hierarchy and organizational management practices.

December banquet meeting – the “Professional Fees Dilemma”

I returned to Beijing in December on a three-day stopover from Thailand. Before contacting Madame Wang I met with Mr. Zhou, my colleague at the National Administration Institute, and asked him about conversations which he had had with her (1.1, 2.2). He indicated that there was definitely a seminar being planned because Madame Wang had invited him to attend. I described to Zhou my letter of proposal to Madame Wang, including the fees I had proposed. I outlined the number of times I had come to China for no fees and detailed the exact fees which I had been paid on the other occasions so that he would know the broader context of the negotiations (3.1). Most significantly, I indicated that I planned to continue to come to his institute and deliver courses and do research at no cost for the foreseeable future on the basis of my commitment to the Institute. But with organizations like the SCA, I needed to charge professional fees to balance off the free work. I spoke openly with him about my concern that the SCA would want me to do the seminar at no cost and of the dilemma this placed me in because I could no longer afford

to do this. I indicated that, since we had worked together in Canada for six months and developed a deep friendship, we could speak frankly as old friends (3.2). I asked him for his advice. He said that he would think things over and let me know.

Madame Wang was contacted the next morning and she invited both myself and Zhou to a banquet that evening at a well-known and quite expensive restaurant. When I arrived I found that Madame Wang had invited two representatives from the International Bureau of the State Enterprise in Urumqi to the banquet as well. Toward the end of the meal, she opened the discussion of the seminar in Urumqi, indicating that the SCA was interested in having me deliver the seminar but that there was no budget available to cover professional fees. This was because the seminar had not been included in the annual budgeting submissions – it was being run as an extra activity [Strategy 5]. She and the representative said that they really appreciated the many seminars that I had done in the past and indicated that they were simply asking me, as an “old friend”, to do one more for them. They both described the area around Urumqi as one of the most beautiful in China and promised to arrange free tours as part of the “compensation” for the free seminar.

I thanked them both for their outline of the proposal and indicated that I understood their budgeting dilemma. I then provided them a detailed outline of my involvement in China, describing the fees and expenses of each trip (3.1). I summarized by saying that my company had been involved in China for 7 years and had essentially broken even on the relationship. I then described the growing difficulty which I was experiencing with my company’s “management committee” (3.3). I indicated that my associates were growing unhappy with the amount of time which I was spending in China since it was not bringing economic returns. It was they, I indicated, who had drawn up the financial part of my initial proposal to Madame Wang. I was under obligation to meet with them and discuss any changes to this proposal, a meeting which, I indicated, would be very difficult if I did not have some “near western value” professional fees to propose (3.3, 2.3). I asked for their assistance in thinking through how we might structure an agreement which would satisfy my colleagues and achieve the delivery of the seminar in Urumqi at the same time. I said that I was prepared to commit myself to deliver the seminar if we could together work out some solution to this problem. I suggested that we agree that the seminar would happen and both go away to think about possible solutions to the problem.

Chinese Negotiating Principle	Chinese Negotiating Practice
3. Past gains are the basis of future negotiations	<ul style="list-style-type: none">• Use past practices (contract amounts, delivery conditions) as mechanisms to demand similar or better conditions on this deal
4. Relationship is important and is demonstrated by loyalty to the family and the collective group.	<ul style="list-style-type: none">• Use the concept of “relationship” and “old friend” to secure additional concessions or peripheral advantage. Imply membership of the negotiator in a circle of “special relationship” and demand concessions based on such membership.
5. Truth is not important – what is important is winning the negotiation	<ul style="list-style-type: none">• Use real or spurious regulations, policies or budget limitations as rationale for demands.

With reference to Principle 3 – dealing with past precedents – Blackman (1997:87) indicates that, owing to government restrictions on foreign capital, price is frequently a difficult issue in Chinese negotiations. This was most certainly true in State Owned Enterprises during the current period (1998) in which China was restructuring and slashing budgets. But there are many other issues which drive the focus on price, especially for Companies which do business regularly in Asia. Key among these is the face of the negotiator. When a Company has done previous business in China or in other areas of Asia where contract prices can be searched and identified, the Chinese negotiator assumes that the previous price charged for a contract is the maximum amount that will be charged for the current contract. This is especially true when the Chinese negotiator is new to their position, since to pay more than their predecessors or other Companies for a product or service would signal weakness on his or her part.

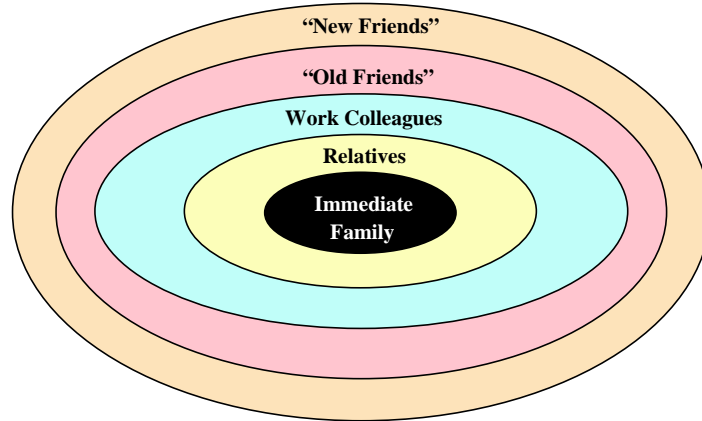
In cases where prices for former contracts can be established, therefore, Chinese negotiators will bring forward prior agreements and demand equal or better conditions for

the current agreement. This makes negotiation very difficult when Western companies have carried out initial contracts as “loss leaders” to establish relationships or break into the market. Although the Chinese themselves will encourage this practice, they use the prices establish in the initial delivery as a measure of the base line for future negotiations, making it difficult to negotiate the price upwards at a later date.

Reference to past pricing in relation to current negotiations is a wonderful example of Kluckhohn and Strodtbeck’s dimensions concerning primary mode of activity and temporal orientation. With reference to mode of activity, the Chinese orientation prefers maintenance of the status quo rather than change in response to evolving environments. Once a pricing structure has been established, it is considered the reference point, regardless of changes in external business conditions such as inflation or materials shortages (or of the fact that the initial delivery was priced favorably for strategic reasons). The strong preference of the Chinese is to maintain this initial pricing structure. Any shift implies risk that they are being “taken”, even though the negotiators may have personally participated in establishing the initial “underpriced” situation. Preferences related to temporal orientation are similar in nature. All references related to the introduction of change are to precedents set in the past, with little regard to current conditions or potential future gains. In fairness to the Chinese negotiators, current availability of foreign currency has a dramatic negative impact on freedom to purchase technology or services which speak of future rather than current needs or capabilities. The basic orientation to protecting the past gains as opposed to focusing on present or future advantage drives much decision making in China.

Principle Number 4 focuses on the special importance of relationship in Chinese society. There are a number of defined levels of relationship in China (Miles, 1997). These are summarized in Figure 1 below. Since negotiation clearly requires close interaction between individuals over time, relationships develop between both the companies or organizations involved and between the negotiators as individuals. Central to the negotiations, then, is the definition of the level of relationship that the Chinese view the other parties to hold. The two possibilities in the above framework open to most

Figure 1
Circles of Relationship in Modern Chinese Society



Westerners are “New Friend” and “Old Friend”. As noted earlier, references by the Chinese to “old friend” relationships lead fairly quickly to demands for concessions or special considerations based on the “old friend” status. Such demands, once put on the table, can become quite problematic unless addressed since they are viewed in a serious light by the Chinese. Since friends are obligated to do what they can for other friends within Chinese culture, if the Chinese negotiator views the foreign team as an old friend, there exists a serious expectation that concessions will be forthcoming as a result of negotiation discussions between “old friends”. These, of course, can be difficult to allow within the economics of large and complex projects or programmes.

Reference to relationship models the framework implied by both Hofstede’s “Individualism” dimension and Kluckhohn and Strodtbeck’s “Relationship” dimension. Research related to interpersonal behavior found that it was possible to distinguish cultures based on their conceptualization of the importance of independent, individually focused actions vs. a felt need to modify decisions based on group membership and the special privileges and obligations which flowed from those relationships. The Chinese

expectation that relationships imply special privileges models a clear preference for one extreme of the dimensions outlined by these researchers.

The heart of Principle 5, focusing on the naming (or fabrication) of regulations or management processes and policies lies in the perception that non-Chinese negotiators will not know the ins and outs of the Chinese bureaucratic system. Since there are generally many jurisdictions affected by significant decisions, regulations which exist (or may exist) are complex and multiple. It is easy, in such cases, for Chinese negotiators to manufacture regulations or policies which force concessions to their advantage. Blackman describes the use of spurious or secret internal ‘regulations’ in China as a sign of the stonewalling and trickery which typify a society where distinctions are made between insiders (who will know what is real) and outsiders (who will not). (1997:12-13). She quotes two recent Chinese textbooks on negotiating joint ventures with foreigners as advising Chinese negotiators that “economic negotiation is not just simply marketplace haggling” (Zhang, 1993) and urging them not to use “lies to cheat the other negotiator” (Li, 1988) (in Blackman, 1997:8). The fact that such practices had to be mentioned in a manual of negotiation strategy implies that they are widely practiced. Again, such practices model Hofstede’s “Individualism” and Kluckhohn and Strodtbeck’s “Relationship” dimensions. The distinctions between in-group and out-group knowledge of and access to information are core to such practices.

Potential Responses to Pressures Based on Prior Negotiated Settlements, Implied Special Relationships, and Arbitrary Regulations or Processes

3.1 Be prepared to provide the exact details of the overall balance sheet to date of your involvement in China. For many companies this involves at best a break-even position and usually a loss position over the first lengthy period of involvement there. There is no need to have this in writing but there is a need to be able to present it in a thoughtful and detailed manner, indicating exact costs of services provided and exact amounts of payments the Chinese side has paid in the past. Having provided details of your company’s financial position related to experience, indicate that your company has, in good faith, taken no profit or has absorbed losses in order to demonstrate

loyalty and sincerity to the Chinese partner. Let them know that issues of fairness have begun to be raised in your company and that you are now under pressure from your bosses to charge reasonable market prices or they will have to reduce their commitment to China. Then ask them how this situation can be resolved. My own lengthy involvement with the SCA and the willingness demonstrated at the beginning and on an ongoing basis to provide services at minimal or no costs established a credibility to my current requirements for payment. The story of my demonstrated instances of service to the SCA made it difficult for my Chinese counterpart to continue to demand free services.

4.1 Raise the title of “old friend” yourself and indicate that relationships of friendship in your country mandate responsibilities on both sides to help each other in situations of need. Indicate that, as an “old friend” you have demonstrated a willingness to open special opportunities to your Chinese friends in the past (this is assuming, of course, that you have already demonstrated willingness to provide favorable pricing on some introductory products or services). Then say that circumstances have reached a point where it is now you, as an “old friend”, who has some needs which require assistance and consideration by the Chinese side. Describe the pressures on you to sell at reasonable profit margins and indicate a need to put together an agreement which will be seen favorably by your superiors. Where it is difficult for the Chinese side to move significantly on price, such a request on the foreign negotiator’s part frequently opens up considerations of issues other than pricing, since the Chinese often have much more flexibility around such factors. These could include such issues as quality standards, delivery dates, transportation, and structuring of payments. Special considerations around such elements of the negotiation may make lower selling prices much more financially viable.

5.1 There are two strategies which are significant in relation to the “Chinese regulations” issue. The first of these requires the commitment of time and effort to investigate the exact level of regulations which exist. This must be undertaken by a local Chinese colleague who must be skilled both in language and the politics of the organizations

involved. In most cases, even a cursory examination highlights options which negate the effects of hitherto immutable regulations and facilitates the furthering of negotiations.

A second strategy involves the preemptive use of counterbalancing regulations, policies or “management committee processes” which make it difficult or impossible for the foreign negotiator to negotiate special arrangements. Such regulations should, of course, be based in fact but should be stated as unfortunate facts of life around which the negotiator has no leeway. In some negotiations in China related to a Government contract, for example, the negotiator was able to state unilaterally that the Canadian Government regulations did not allow the support of capital structure construction. This allowed the discussion to move to other areas where negotiation was possible without damaging the relationship between the two negotiators involved.

A hasty Meeting, a Tentative Contract, Some Interesting Reversals, and a Final Deal

Early on the following morning, I received a call from Madame Wang. She informed me that she had met with her superior concerning the Urumqi seminar and she wanted to discuss my possible involvement in the seminar once again. We agreed on a 10:00 meeting, even though my plane left at 2:30.

When she arrived she began again to tell me about the budget problem and how sorry she felt that they could not offer me any professional fees (3.3). I explained again, in exactly the same level of detail as I had the previous day, about my colleagues’ difficulties with leading the seminar without adequate financial compensation (3.1). It is important to note that both Madame Wang and myself smiled to each other throughout the conversation as only old friends could in such circumstances. After we had both retold our stories and clearly hadn’t changed our minds, Madame Wang said that she had talked with her Director (6) and he had suggested that, if I would be willing to cover all expenses related to the seminar and give them the receipts, they could perhaps make a payment in the amount of approximately \$10,000 Canadian for everything. She suggested that I could present this figure to my colleagues as “income” from the workshop. We discussed what fees I would have to cover and, after some brief haggling over the inclusion/non-inclusion of some expenses (I

refused to pay for the training rooms!), we agreed that I would be responsible for the following expenses:

- *International airfare (approx. \$2000.)*
- *Internal air fare to Urumqi (RMB 2400)*
- *Food and accommodation (RMB 300/day)*

I agreed to present this proposal to my “management committee” (3.1).

When I arrive back in Canada, I faxed immediately, outlining the above terms in writing, indicating that my colleagues had agreed to this proposal, and asking her to confirm by fax the exact dates of the seminar and that the above outlined expenses were the maximum amounts that would be charged under this agreement [in these details lay the seeds of ongoing negotiation].

Within a few days I received a return fax indicating dates for delivery of the seminar in May, and revised increased fee for the airfare to Urumqi (an additional RMB 1200) and revised increased fee for accommodation at Urumqi (an additional RMB 100/day) (7). I faxed a return indicating that, since we had discussed the amounts outlined in the first fax and I had presented these to my colleagues, these must remain the basis of our agreement. I indicated that, given the low amounts of the contract and the difficulty in arriving at an agreement, perhaps it would not be possible to do the workshop. I suggested that we postpone delivery of the workshop, perhaps until November when our work commitments were not so heavy and perhaps I could convince my colleagues to allow me to deliver the seminar at this reduced rate at that time. But I could not guarantee this. I indicated my ongoing commitment to continuing to build our relationship and indicated that perhaps the timing was just not right for our delivery of the seminar in Urumqi at this time. [Principle 7]

Within 24 hours I received a fax reply from Madame Wang indicating that she had discussed the situation with the Director at Urumqi and, since the fees initially provided were not sufficient to cover travel and accommodation “at our Western Company’s usual standard”, they would make up the difference. The workshop was on per our agreement!

Chinese Negotiating Principle	Chinese Negotiating Practice
6. The superior makes all decisions.	<ul style="list-style-type: none">• Refer all significant decisions to the highest possible ranking person or committee in the organization. No fault can be found with you if you did not personally make the decision.
7. Attack when the opponent thinks he has been successful.	<ul style="list-style-type: none">• When the negotiation process appears to be over and the agreements have been written and signed, change some elements in favour of yourself.

China is a highly structured society, based on Confucian principles supporting strict adherence to hierarchical decision making processes. Blackman notes that "...the majority of Chinese working in government organizations is risk averse. They prefer to keep their heads down...Although under new changes in management structure the Department Director can make a decision, he takes great care to insulate himself against future difficulty or dispute. Very few Chinese managers are prepared to bypass the hierarchy." (1997:61). Pye also notes this tendency, commenting that "[in China] the critical art is to avoid responsibility, diffuse decisions, and blunt all commands that might later leave one vulnerable to criticism." (1982:16) The difficulty which this poses is that as negotiations progress, it will be important for the Chinese negotiators to confer with their superiors (Principle 6). Western negotiators assume that the group will work through the time of the negotiations together and then prepare a final document for approval, either in well formulated draft form, or in actual final copy. In China, the need for consultation and direction from superiors demands frequent breaks so that the

negotiations do not go too far down the road in directions in which the boss does not approve. For this reason, negotiation sessions either break frequently (to provide the Westerners with opportunities for tours) or the negotiators change frequently. Both of these approaches allow for information to be brought to the superior for discussion and strategy building. This causes some stress for the Westerners who, as note earlier, typically operate on the assumption that time is money and frequently interpret the Chinese breaks as signs of confusion or insincerity.

Once the agreement is signed, Westerners frequently find that there are changes made to what has been agreed (Principle 7), often without discussion and frequently in a silent manner through presentation in what is ostensibly the contract that had been discussed. . Li (1989) cautions Chinese negotiators themselves that they should carefully examine contracts to prevent themselves from “falling into the trap that the opposition has smartly set.” Such processes occur through changes in the pricing, delivery conditions, and even the specifications of the product to be delivered.

Both of the above sets of practices are excellent examples of Kluckhohn and Strodtbeck’s “relationship” dimension in that they are both based in the definition of in-group and out-group relationships. If you are part of the in-group, you will understand that decisions cannot be made at the negotiation table since the superior is generally not there until all the details are worked out and he or she has agreed to them all. In terms of the changes to the contract, the in-group - out-group thinking drives the decision by the Chinese to maximize the benefits for their own group, without much regard for the losses incurred by the foreigners.

Potential responses to the need for consultation with absent superiors and in dealing with changes in the contract

6.1 Plan the negotiation to include frequent significant breaks (of up to half a day or a day each). Such a strategy will not only provide you with opportunities for rest from the arduous process of negotiation through interpretation, but it will provide you as well as the Chinese negotiators with opportunities for communication with your own

back-home team. It also provides you with a wonderful chance to build relationship with your counterpart negotiators outside of the formal negotiation setting. A personal relationship at this level is one of the most valuable tools which a Western negotiator can possess. The time spent cultivating personal knowledge of each other will serve the ultimate ends of reaching a successful negotiation much more powerfully than an extra day at the negotiation table. In the situation of the human resource training session, my other commitments while in Beijing provided well spaced intervals during which Madame Wang could easily confer with her supervisors in SCA and establish the availability of the funding that I was requesting.

7.1 Contract signing is, for the Chinese simply a signpost on the road to the building of an ongoing relationship. They are not seen as fixed points beyond which the negotiation ceases. Given the above, it is extremely important for the Western negotiator to know where the bottom line is in relation to core issues of the contract (such as price, delivery schedule and volume). He or she must simply refuse to budge beyond that bottom line, with the clear unstated belief that it is better to walk away from the business than to carry it out under unfavorable terms. Blackman refers to this as using “forcing strategies” and notes that, when used, the negotiator must mean what he says! Such strategies may lose an initial or single contract but, if played well, will gain the negotiator a reputation of tenacity and persistence that is much valued by the Chinese. This is especially true if the strategy is used in spirit of a long term relationship for which the details of the current contract are not appropriate but for which the next opportunity might fit better. The negotiation for this case’s successful contract involved two instances of the use of this tactic: my own initial refusal to draw up a schedule and budget plan without returning to Canada and my response to the changes in the internal airfare and accommodation costs at Urumqi. In both instances, the Chinese side responded favorably to the tactic and brought the contract back onto the table under the originally signed conditions of agreement.

Summary

Negotiation in any culture is based on some deeply held assumptions about the world and people's interaction processes. The cross-cultural researchers touched upon in this paper have clearly and conclusively demonstrated that those assumptions and behaviors differ in fundamental ways across cultural boundaries. In the process of negotiation between Chinese and Western actors, both sides experience their values being challenged and, on bad days, their sense of competence shaken.

One of the most serious errors which both Westerners and Chinese make is to assume that the goals of the other party are the same. The Chinese assume that the Westerners are there for short term profit while the Westerners assume that the Chinese are interested in nothing but price. This attitude results in what Blackman has termed the "culture of bazaar haggling" which tends to dominate most negotiations in China (1997:191).

This paper has touched upon seven Chinese principles and negotiation practices actively experienced in the specific contract negotiation process described here. The principles touched upon (Table 1) all come out of the "haggling" mentality. Where negotiation has been successful in my experience, efforts have been made to have both sides rise above this particular approach to doing business. With this goal in mind, the paper outlines a number of potential response patterns which Westerners might choose to use to counter or balance these behaviors. My experience has been that negotiations generally proceed successfully in China when the intent is not to cheat or trick the Chinese side into an agreement. If the intent is clearly to resolve differences in ways which make it possible for the Chinese partners to meet their own as well as the long term needs of the Western side, quality agreements are possible.

Concluding Thoughts

I tremendously enjoy my time and my work in China. I find negotiating there to be a stimulating and energizing experience, both because I enjoy building relationships with people and because I have come to appreciate others' cultural predicaments. I have

experienced both success and failure in negotiations efforts with my Chinese colleagues. In fact, I hesitated for the longest time writing the last sentence, because, frankly, I don't think I have experienced failure—just not quick successes in some cases.

I say this because it has been my intensely focused goal to develop vibrant and viable relationships in China. There have been moments when I was unsure about the right path to take next, and in those moments I

was concerned that, by doing the wrong thing, I would cause difficulties for my Chinese counterparts. Such a situation in China is the same thing as causing

Banquet frequently and speak frankly.

Response by Zhang Xin, a Director of CAPC, to a request for advice about how to do well in China.

difficulties for yourself. But through these moments, I have, to the best of my ability, carried out the advice given to me by a Chinese mentor, Mr. Zhang Xin. His advice to me about how to be successful in China was as follows: “Banquet frequently and speak frankly.” When he passed on his wisdom he explained it in this way: “When you banquet, you do this not for the food, but for the occasion to talk in a relaxed setting about who you really are. In fact, you banquet to build relationship. And, through relationship, you can do much business. You speak frankly so that people can come to know you as someone who will tell them, quietly and with appropriate politeness, both good news and bad and then be around in the long term to help with whatever develops.” In China in 1993, Government officials spent more than 100 billion yuan on food and drink, more than the central government spent on health, education, science and welfare combined (Blackman, 1997). It would appear the Zhang Xin is not alone in his support of banquets and the relationship building they forge.

This article has listed a number of principles and practices of Chinese negotiation practice. The reading of them and the counter-strategies suggested may come across as pejorative in relation to Chinese culture. This is not the intent. The Chinese negotiator struggles with images of “effective negotiation” just as we do in the West. His or her culture has “problem solving approaches” to the resolution of the dilemmas of negotiation different from the approaches favored by Western culture. The negotiating

“game” in China can be carried out extremely effectively if we in the West take the time to come to understand that game – and commit ourselves to building and maintaining the relationships that will ultimately be the core factor which ensures success in negotiating in China.

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