Negotiating with the Chinese: the role Culture and Emotions in Sino-Australian Business

Relationships

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ABSTRACT

Despite China as Australia’s most significant international trade partner, the number of successful negotiations and joint ventures between the two countries are still limited. This paper explores examples of success and failure in Sino-Australian business negotiations through a theoretical framework looking at emotions and culture using an affective events theory (AET) perspective. Preliminary findings of in-depth interviews with 25 Senior Australian executives, across a range of industries, with extensive experience negotiating with Chinese suggest that guanxi, core to relationship development and maintenance in Chinese culture together with emotions were major determining factors. These have significant implications for future Sino-Australian business negotiations / relationships.

Key words: Sino-Australian negotiations; relationship or guanxi; emotions; culture; cross cultural communications; Affective Events Theory (AET) and affect.

INTRODUCTION

It is widely recognised that the key to successful international business relationships is effective communications (Dwyer, Schurr, & Oh, 1987; Nevin, 1995, as cited in Griffin, D., 2002). However, past research on communication and negotiation has mainly focused on the contextual (Phatak, & Habib, 1996; Risberg, 1997), social (Ghauri, & Fang, 2001), and cognitive factors (George, Gareth, & Gonzalez, 1998), that influence communication and negotiation outcomes. Recent research have begun to look at the important intangible aspects of negotiation like: trust, reputation, relationship quality (guanxi in the case of the Chinese), moods and emotion, which shape the processes and outcomes of communication and
negotiation (Griffith, 2002; Hartel & Ma, 2006; Ma & Hartel 2005; and Zhao & Krohmer, 2006). It is clear from these studies, that theories of cross-cultural business negotiation should consider contextual and individual differences factors from both cognitive and affective perspectives. Given these criteria, we chose the Affective Events Theory (AET) (Weiss & Cropanzano, 1996) as the underpinning theory for the development of a model of cross-cultural business negotiation presented in this paper.

In this paper, we first present a background discussion on Affective Events Theory AET, followed by an overview of our theoretical framework developed for examining Sino-Australian negotiation. Next, we discuss business negotiation process in its four phases as a dynamic and interactive process as in the Sino-Australian business negotiation context, followed by a discussion of the importance of guanxi in Chinese culture in relation to the Sino-Australian negotiation context. Finally, the preliminary findings from the semi structured in-depth interviews with twenty five senior Australian executives and managers are presented, followed by a discussion of future implications and potential limitations with this research.

BACKGROUND

Affective Events Theory

Affective Events theory (AET) is an uncomplicated framework which allows researchers to look at emotions in organisations while adapting other existing concepts and is a good starting point for studying business outcomes from an emotions perspective (Ashkanasy, Hartel & Daus, 2002). AET adopts a cognitive appraisal perspective of emotions, which means it takes into consideration the interplay between cognition and emotion. AET looks at the antecedents and consequences of momentary affective experience (moods and emotions) in the work place; as such it acts as a cogent theoretical framework to study emotions in the workplace. In AET, experiences from work can be a series of work events that can be pleasant and positive (uplift), or difficult and negative (hassles), and they can influence the way one feels and behaves in the work place. In AET, work place conditions (work environment features), can give
rise to daily hassles and uplifts (affective events), which lead to affective responses (moods and emotions) in employees. These experiences can lead to expressions of positive emotions like, joy or pleasure, or negative emotions like, anger or sadness. It is argued, that if these emotions are to accumulate over time, can impact on people’s intentions, and behaviours towards their work (job attitudes), which can influence the more concrete form of judgement driven type behaviour (Weiss & Cropanzano, 1996).

OVERVIEW OF FRAMEWORK

In this paper, a model developed to examine the Sino-Australian negotiation is presented, looking at the factors affecting Chinese negotiators’ perception of guanxi and how it can influence the negotiation (see Figure 1 attached at the end). The model, from an Affective Events Theory (AET) Perspective (Weiss & Cropanzano, 1996) incorporate the constructs of affective (emotion) communication competence; relationship quality in terms of guanxi; cultural founded communication patterns in terms of high and low context (Hall, 1976; Gudykunst & Ting-Toomey, 1996, 1998); the model of affect in cross-cultural negotiations (George et al., 1998); and Griffith’s (2002) model for international communication effectiveness. This model extends existing conceptualisations of the cross-cultural communication process by combining theories of emotions and research on guanxi and adding the author’s own unique cultural understanding and experience of the Chinese perception of guanxi with well-accepted theories of contextual, social and cognitive influences on communication and negotiation (Ghauri, & Fang, 2001; Phatak, & Habib, 1996; Risberg, 1997).

Although it is known that emotions can influence cross cultural communication/ negotiation (George, Jones, and Gonzalez, 1998), we suggest, that emotions together with culture differences (Hall, 1976; Hofstede, 1980; Hofstede, 2001, and Trompenaars, 1993), can influence the success or failure of Sino-Australian communication / or negotiation (Hartel and Ma 2006; Ma and Hartel, 2005; Ma and Hartel 2006a and Ma and Hartel, 2006b). In this paper, we focus on guanxi, an important part of Chinese
culture and way of life (Hutchings, 2002, Hutchings and Murray, 2002 and Hutchings, & Murray, 2003, Zhao and Krohmer, 2006) and the key to developing and maintaining relationship in Chinese culture is an integral part for the success and failure of Sino-Australian negotiation.

In addition, we examine how ‘affective communication competence’ (emotions), and the ‘difference in the Chinese and Australian communication patterns’ can impact on the ‘communication patterns events’ occurring which can be perceived by the Chinese negotiators as ‘positive affective events’ (uplifts) or ‘negative affective events’ (hassles). These affective events can then influence ‘the moods and emotions’ experienced during the negotiation and if allowed to accumulate can affect the Chinese’ ‘perceptions of the quality of guanxi’ in the overall relationship (see figure 1 attached at the end) and in term, negotiation outcomes.

**BUSINESS NEGOTIATION**

Generally, negotiation is a process in which all parties considering their goals and aspirations respectively, share information strategically and pursue alternatives that are mutually beneficial (Robinson & Volkov 1998). Business negotiation can be an intricate lengthy process that involves several stages (Atkin & Rinehart, 2006; De Moor & Weigand, 2004; Mouzas, 2006) depending on the type of business negotiations and their cross-cultural orientations (Macduff, 2006; Oikawa & Tanner Jr., 1992; Woo & Prud’homme, 1999; Fuller, 1991). This is generally conceptualised as comprising four phases: informal phase, the formal phase, the final signing up phase, and the post-negotiation phase. Each phase plays a part in the ultimate course of the business negotiation (see figure 1 attached at the end).

The informal phase is typically the preparatory stage, which involves information gathering about the prospective partner, environmental scanning and planning (Atkin & Rinehart, 2006; Urban, 1996, Usunier, 1996). As such a set of preparatory tasks need to be considered and according to Richards & Walsh (1990) the list include: taking into account one’s needs; checking ones assumptions about the
possible outcome; be factual with one’s position and ability; to consider the issues relevant to the negotiation; and most important of all is to remember the needs of your counterpart. It is strongly advised that pre-negotiation training for negotiators may be considered appropriate at this stage (Fuller, 1991) to provide the negotiation team with understanding about the cultural differences, legal issues, negotiation styles and the reactive modes during the formal negotiation process. It is also important to meet people to build rapport before the formal negotiation takes place. This is particularly crucial in the Sino-Australian business negotiation context, as Chinese like to deal with people they are familiar with. Consequently, it is vital to build relationship (guanxi), to allow mutual trust (xin) to be established before proceeding to the more formal phase of negotiation.

The formal phase can impact on the final negotiation outcome and as such careful planning is a pre-condition to any negotiation success. The ‘give and take’ over specific issues during this phase needs to be carefully considered (Atkin & Rinehart, 2006: 51) and this phase should not be rushed. The language used during the formal negotiation and the choice of venue should suit both parties (Howarth, et al., 1995; Nokatani, 2006). Therefore, Western negotiators need to have an ‘unusually high degree of flexibility’ while doing negotiation in Asia (Lassere & Schütte, 1995: 192). It is important to ensure that the atmosphere remains friendly during the formal negotiation phase, while at the same time maintain mutual respect and understanding to achieve a ‘win-win’ outcome. This is critical in the case of Sino-Australian business negotiation as the perception of good relationship (guanxi) is far more important to the Chinese than rushing to sign an agreement on paper.

The final signing up phase entails the careful preparation of the documentation of the terms and conditions as per the discussions in the formal negotiation phase, which, given the complex nature of the preparation of documentation for the final signing up of contract, warrants consideration as a separate phase and the final signing of the documents. The documents are usually prepared according to the host country legal requirements, nonetheless, it is a good practice for the foreign partner to understand relevant host-country legal issues and interpret them according to the home country law for any future legal implications (Howarth, et al., 1995). This is also relevant in the Sino-Australian context.
The post-negotiation phase is equally as important as the previous phases mentioned above (Atkin & Rinehart, 2006; Mouzas, 2006). Post-negotiation, both parties may still change the agreed clauses to their own advantage (Mouzas, 2006). This is of particular relevance in the Sino-Australian business negotiation context as the Chinese counterpart may feel more comfortable to continue the discussion post the formal negotiation, as part of ongoing building of guanxi. It is vital to utilise this post-negotiation period as an ongoing process to achieve optimum benefit from the agreed outcomes. Open-mindedness and flexibility need to be exercised by the Australian counterpart as to not cause the Chinese counterpart to lose ‘face’ whilst at the same time to achieve their desired outcome.

THEORECTICAL BACKGROUND ON GUANXI

The significance of ‘Guanxi’

The concept of “guanxi” has been widely researched (Jacobs 1982; Brunner and Taoka 1977; Lee and Lo, 1988; Tse et al.1988; Yang 1986; Kwang-Keo, 1987; Brunner and Koh, 1988; Brunner et al., 1989 and Wong and Leung, 1992, as cited in p.749 of Leung, Wong, and Wong, S., 1996). Guanxi in Chinese literally means ‘relationship’ or ‘relation’ and it can also be translated into ‘special relationship’ or ‘connections’. The concept of guanxi is deep rooted in the Chinese society and some may argue it is a guiding principle of economic and social organisation (Cheng & Rosett 1991; Fei 1992, Fried 1953; Hwang 1987; Hu 1944; and Walder 1986, as cited in Bian and Ang, 1997). Significantly, ‘guanxi’ goes much beyond relationship or connection in the Chinese context as it means personal interactions with other people and almost always involve reciprocal obligation (Stone, R., 1988 cited in Bian and Ang, 1997). Other researchers suggest it can be a set of interpersonal connections that involve the exchange of favours between people on a ‘dyadic basis’ (Hwang, 1987). Guanxi is a very important part of Chinese culture and way of life (Hutchings, 2002; Hutchings and Murray, 2002; and Hutchings, & Murray, 2003; Zhao and Krohmer, 2006). It can be based on blood or kinship (Tong & Yong, 1998); net works (Davies, 1995) or guanxi can also be defined as “friendship with implications of continual exchange of favours” (Chen 1995, cited in Wong, 1998). The guanxi network can be “the social interactions within the network place and its members in the equivalent of an infinitely repeated game with a set of people they know” (Davies, 1995 as cited in Wong, 1998). It is believed
that the continual favour exchanges develop trust among the members of the *guanxi* network, and this assists with reducing the risk of uncertainty. As such, kin or non-kin relationships do not matter, as they are the relational bases to develop *guanxi* in the Chinese society.

**Guanxi and the Chinese culture**

The Chinese culture is strongly influenced by the Confucian tradition, which defines individuals in relational terms (Yang, 1994) and relates individuals to their significant others. Such as the relationship between the father and the son; the wife and the husband in the family; between the uncle and the nephew/niece; between the grand parents and the grand children; between the teacher and the student in the school; between the school mates; and the relationship between the boss and the subordinates in one’s career development. It is different to the Western culture which is strongly influenced by Christianity, where Christianity puts individuals in reference to God. The ‘significant others’ in the Chinese context are not seen as instruments to help identify and recognize “self”, which is the core to the cognitive development theory underlying the Western traditions of individualism and capitalism (Mead, 1934, as cited in Bian and Ang, 1997). In the Chinese culture, the collective is almost always considered greater and more significant than the individual. Some researchers suggest that self is identified, recognized, and evaluated in terms of one’s relations to various groups and communities where one belongs. This provides both the abstract and the concrete foundations for *guanxi* to work in Chinese societies both within China and outside of China (Hsiao 1988, as cited in Bian & Ang, 1997).

From the literature, three broad research questions are developed: Will ‘Affective competence’ (or emotions) impact on the negotiation outcome in Sino-Australian Communication / negotiation? Will ‘Cultural competence’ (or culture) impact on the negotiation outcome in Sino-Australian Communication / negotiation? Will the perception of relationship quality (e.g. trust, & *guanxi*) impact on the negotiation outcome in Sino-Australian communication / negotiation?

**METHODS**

This study used qualitative research methods involving semi-structured in-depth interviews involving twenty five senior Australian business executives and managers across various industry backgrounds (mining,
banking, education, retail, insurance, export and import) ranging from one hour to one hour and forty five minutes. In-depth interviews conducted to gain better understanding of the Australian managers’ perspectives of their experiences with their Chinese counterparts during business communications and negotiations. The participants were experienced individuals in cross cultural business negotiations and all have engaged in business negotiations with the Chinese. All the interviews were recorded and the recordings transcribed and the verbatim transcripts of the interviews are studied multiple times and thematically analysed by the researching PhD student manually with QSR’s N-vivo 8 computer software program coding and analysis of the data is underway.

**PRELIMINARY FINDING**

**Culture**

The interview data strongly highlights the role of culture in Sino-Australian business relationships and the importance of having cultural awareness in influencing the success and failure in Sino-Australian negotiations. 

Relationship or *guanxi*, face or *mianzi* are all important in doing business in China and respect and trust is the key. Relationship takes time to build and once built needs to maintain it. To do business in China, one needs to develop relationship to the highest level, while, at the same time, to be outcome focused, i.e. results / performance focused (quality, price and delivery) and maintain a solid business relationship. Once the relationship is built, it is important to cement the relationship. Chinese like to buy from and sell to people they know, so it is important to build and maintain relationships with the Chinese. Sometimes the benefit from having good *guanxi* is not immediate; it can be for the longer term business. Chinese is much more long term orientated in their focus with doing business.

Chinese people are more hierarchical and formal than Australians; hence title is important in doing business with the Chinese. Face is also very important but it can be a cultural imperative as well as a negotiation tactic. The Western ‘outcome focused’ style of the Australian managers can clash with Chinese saving face. One experienced Australian executive explained this well: “*Never cut a deal unless you give face*” (*MCC11*). Most participants agreed that it is better to be careful to not cause the Chinese to lose face and focus on the relationship building to facilitate in getting the business deal. According to some Australian managers’ experience, a handshake is the deal if solid relationship is in place. Other experienced participants believed that Chinese can also use the face saving as an
excuse and it is important to get a breakthrough with communication. “That’s right. If you—if you as a Chinese person decide to enter the realm of the western international business, expect…that you’re going to leave some of your Chinese culture imperatives at the door. And one of them is saving face, alright? Cause it prevents, it’s a blocker to outcome-focused business. Alright?” (MSW10).

Cross cultural communication/negotiation is a dynamic, interactive process that is challenging and this is particularly true in the case of Sino-Australian negotiation. Most Australian managers comment on the importance to be respectful of the Chinese. Even though there are distinctive cultural differences between the Australian and the Chinese, it is crucial to focus on cultural similarities rather than the differences and build common ground. Experiences is important, the more experience managers can remain calm in negotiation and can communicate in a sincere, respectful and endearing way to achieve their desired business outcome. “And the—an d the analogy is that they need to feed their family. I’m very happy for them to have a bowl of rice with which to feed their family….But I don’t want them to have…make so much money out of me that they can afford TWO big bowls of rice. And it was-and this quite often the joke that the way it would work” (MSW10).

A distinctive difference in cultural communication pattern of the Chinese is the saying and meaning of ‘yes’. “Yes, may or may not mean ‘yes’, it can mean ‘no’ or ‘may be’…”(MJA07) and some participants commented “different grades or shapes of yes” (MGK05). This is because Chinese consider saying ‘no’ as a rude gesture and tend not to want to cause a loss of face to the Australian counterpart. In addition the Chinese culture is high context and is more conflict avoidant, therefore they communicate in a less explicit manner and a great deal of the communication is non-verbal. Many Australian managers comment that if you push too hard in the negotiation with the Chinese, they will withdraw. There are many other important issues relating to culture, such as tradition, history and seniority. In addition, there is also presence of sub-cultures between cities. Overall, most participants agreed that increased cross cultural experience help them to become better in negotiating with the Chinese.

Emotions

The data indicated that emotions, emotional awareness and emotional regulations are important in Sino-Australian business negotiations. In general, Chinese are more reserved and tend to be more formal and cautious in
not to be made a fool of during business negotiations with the Australians. However, Chinese people do show emotions in business dealings but their emotions are just less visible and their emotional displays are more subtle, unlike the Western way as indicated by the data. According to one experienced Australian executive, “Chinese have emotions but just doesn’t display like the New York type of emotional displays, however the body languages are similar as the Westerners if observed carefully.” (MRC13). Others commented that “Chinese can appear to be a bit Poker faced and it is difficult to read the Chinese emotions” (FMAW24), especially for the lesser China experienced and some younger Australian managers and another participant commented, “Can’t read the Chinese, especially the older generations…….. they are quite stone faced and talk in dull tones” (MJA07). Other participants also commented that the Chinese business counterpart tended to not show as many emotions in business negotiations. They also exercised a great deal of control with their emotions with the view of showing of emotions during business negotiations as a weakness and probably expected the same from the Australian counterpart.

But, the Chinese do show emotions when the matter is important, however, they tend to show their emotions more in a group rather than individually. Many participants said it is important to use ‘emotion to match emotion’ with the Chinese, some believed it is important to adapt to become emotionless in negotiating with the Chinese and assimilate to do the same as the Chinese counterpart. Other participants believed it is better to do the opposite and used emotions to achieve a break through. Humor, light heartedness helped to lighten the mood and create a more relaxing environment for negotiation. Some participants commented on the importance of being able to joke about one self to break the ice to make the Chinese counterpart to not feel concerned about losing face. In addition, other participants commented that it can be very frustrating negotiating with the Chinese due to the long pauses, delays and interruptions during the negotiations therefore patience is required for achieving successful negotiations.

**DISCUSSION**

Research on how emotions can influence cross cultural communication / negotiation is very topical and relevant in the Sino-Australian business communication /negotiation context. In this paper, we discussed the conceptual model developed to assess the factors affecting the Chinese negotiator’s perception of *guanxi* in Sino-
Australian negotiations, using the Affective Events Theory (AET) perspective, to better understand the processes contributing to effective and ineffective negotiation with the Chinese, and to study the factors which may predict successful or unsuccessful business relationships. We argue that *guanxi*, as a key to relationship development and maintenance in Chinese culture plays an important role for the success or failure of any given Sino-Australian negotiation. Hence, it is important to understand what *guanxi* means to the Chinese so to increase the chance in achieving a better Sino-Australian business communication / negotiation outcome.

In addition, we discussed how the affective communication competence (emotions) and the culture founded communication patterns in the Chinese and Australian counterparts can influence communication events occurring during the negotiation perceived by the Chinese counterparts as positive or negative affective events. As such, these affective events can then influence the moods and emotions experienced during the negotiation. If the Chinese perceive the event as a negative one then negative emotions can be experienced. If these negative emotions not detected by the Australian counterpart and were not convert to positive experience and are allowed to build up, then they can effect the Chinese’ perceptions of the state of *guanxi* in the relationship. This can then impact on the overall success or failure of business negotiation in the Sino-Australian context. This model like the communication / negotiation process in real life should be regarded as dynamic and interactive, not a static one.

The preliminary findings of the in-depth interviews with twenty five senior Australian executives and managers highlighted the central roles of both culture and emotions in Sino-Australian business negotiations. Most of the participants reported that relationship (*guanxi*) and face (*mianzi*) are all important in doing business in China with respect and trust as the key to building sustainable business relationships for longer term business. The data also indicated that emotions play a vital role in Sino-Australian negotiations. More specifically, to have emotional awareness and to be able to emotional
regulate one’s own emotions and the emotions of the Chinese counterpart are important in negotiating successfully with the Chinese. This is due to Chinese tendency not to display their emotions and it is even more important for Australian managers to be able to detect subtle cues to emotions experienced by the Chinese, before the negative emotions are allowed to build up and to convert them into positive emotions to help both parties in achieving a ‘win win’ in Sino-Australian negotiations.

A potential limitation of this paper, is the focus on the perspective of the Chinese negotiator’s perception of *guanxi* and how it can impact on the overall Sino-Australian business negotiation. This was intentionally done to study the effect of the perception of *guanxi* by the Chinese negotiator on Sino-Australian business negotiation. Our future research may be extended to include the factors effecting the Australian negotiators perception of the relationship and how it can influence the business communication and negotiation. Furthermore, Focus group studies with Chinese managers, currently being analysed, should provide interesting findings about the Australian managers from the Chinese perspective. Given the limit with the length of the paper, the scope of this paper is limited to preliminary findings of the interview data with the Australian executives. However, it is important to recognise, that research on how emotions and culture impact on Sino-Australian negotiations is still limited. The importance of further research in this area is summed by well by one Australian executive: “*China is ever evolving and more open to um…negotiating with the west. Certainly it’s a dynamic process I think. And-and what is happening now, possibly won’t happen in two years time. So negotiation or anything to do with China is of concern*” (MJA07).

*Insert Figure 1 here (the theoretical framework)*
REFERENCES


The Four Phases of Business Negotiation

Informal phases of business negotiation

Formal phases of business negotiation

Final Signing up Phase of business negotiation

Post-negotiation scenario

Figure 1. A Model of Factors Affecting Chinese Negotiators’ Perception of Guanxi in Sino-Australian Negotiations: An Affective Events Theory Perspective

Source: Härtel & Ma, 2006; Ma & Härtel, 2005; Ma & Härtel, 2006a and Ma & Härtel 2006b.