

NORWEGIAN SCHOOL OF ECONOMICS AND BUSINESS ADMINISTRATION

NORGES HANDELSHØYSKOLE – NHH

Bergen, Spring 2007

Specialization: Strategy, organization and management

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**TRUST AND MUTUAL GAINS APPROACH -
NEGOTIATIONS BETWEEN WESTERNERS AND CHINESE**

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This thesis was written as a part of the siviløkonom-degree program. Neither the institution, the advisor, nor the sensors are - through the approval of this thesis - responsible for neither the theories and methods used, nor results and conclusions drawn in this work.

ABSTRACT

The Chinese economy has experienced an exceptional growth and an increasing number of Western companies are negotiating agreements with Chinese business partners. Cross-cultural difficulties are obstacles in achieving efficiency in negotiations. This thesis will discuss trust in the context of the mutual gains approach of negotiations with Westerners and Chinese.

ACKNOWLEDGEMENTS

I want to thank my advisor Professor Jørn Rognes for good advice and understanding during the writing process. I also appreciated the course “Forhandlinger”, which gave me the motivation for writing this thesis. Finally, I am thankful for the support I have been given from Wenche Elise G. Knudsen.

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1. INTRODUCTION

1.1 Motivation

The Chinese economy has experienced an exceptional growth during the past decades. After the country opened for foreign direct investment (FDI) in 1979 through the special economic zones (SEZ), there have been increasing interactions between Chinese and Western companies. Foreign companies have been and are negotiating for agreements due to contracts and operations, export and import of goods and services. Thus, the Chinese economy is in transition from being a non-market economy towards a market economy. According to Xiaoxi (2006) the market economy degree reached 73.8 per cent in 2003, whereas criteria are based on the specific circumstances of developments in China and developed by drawing upon the criteria for market economy status (MES) under the anti-dumping laws of the US, EU and Canada. The Chinese government is restructuring and promulgating new laws to make the market more efficient, though the institutional framework is still lacking credibility and needs further improvements.

Still, China is a relation-based society where trust and networking are important parts of how the society and business environment are functioning. Negotiating good contracts and reinforcement of contracts are connected to the negotiators guanxi-network in addition to other aspects of the culture and traditions. Negotiating good long term agreements may be of greater importance in a relations-based society which is lacking adequate intermediaries and framework supporting contracts and formalities. Furthermore, expropriation losses of agreed contracts have been experienced by many companies, therefore creating and maintaining trust may be vital for companies in negotiating with their Chinese counterparts (Li, 2004).

Furthermore, mutual gain approach in negotiation applied in international negotiation may improve the negotiation process and outcome. In achieving beneficial negotiation between Westerners and Chinese, trust in the negotiation process may contribute to better understanding between the negotiation teams as well as trigger a creative and cooperative negotiation climate, and optimally result in an obligated agreement for both parts.

1.2 Research question

This thesis focuses on how Western companies can improve mutual gain approach by considering the importance of trust in negotiations. The research question is:

How can trust contribute to improve the negotiation process between Western and Chinese counterparts when applying the mutual gains approach?

The thesis will look into the use of the mutual gain approach when Westerners negotiates with Chinese counterparts; and in this perspective look if trust can improve the negotiation process.

1.3 Objective

The objective is to analyze trust in relation to negotiations between Westerners and Chinese and how a trusting relation may be beneficial considering the mutual gain approach. The thesis seeks to cover important factors that Western negotiators should be aware of when negotiating in China.

1.4 Report design

- The background describes the growth in China and how the government has facilitated foreign direct investment during the past decades and thus more frequent interaction between Chinese and Western companies.
- Next step is an outline of methodology, how information is gathered and the background for the analysis.
- Theoretical framework is given for a conceptual foundation in the thesis, and is introducing the concept of trust and mutual gain approach to negotiations.
- Theory is given on the Chinese business environment for insight in formal and informal institutions.

- The concept of reputation illustrates how social capital can disturb in how counterparts perceive each other's intentions in the negotiation process.
- Tension and trust is further discussed, based on a research about tension and trust in international business negotiations, to contribute for a better understanding in how it affect counterparts in negotiations.
- An analysis of negotiation, trust and the mutual gain approach is seeking to give a comprehensive understanding of different aspects based upon the previous chapters.
- Concluding remarks are given.

2. BACKGROUND

The Chinese government adopted a new law for foreign direct investment in 1979, due to the open door policy and establishment of four special economic zones. Foreign companies were restricted to equity joint ventures. The restriction was extended in 1984 to further attract FDI, and in 1992; FDI increased sharply when China reaffirmed policies of openness and market-oriented reforms introduced earlier. The accession to the WTO in 2002 was another milestone in the emerging economy and contributed to further opening and reinforcement of the FDI.

The growth has been tremendous and has sustained an average of 9.3 per cent annually since the mid 1980s and the growth rate in 2006 was 10.7 per cent according to the Financial Times (www.ft.com) and the growth is expected to continue in 2007. Hence this, the country has potential for companies to reap profit and to invest in China through different channels. Many foreign companies have invested in the China, but are having difficulties to grasp how business and negotiation works. Furthermore, it is difficult to navigate through the laws and directives in the bureaucracy in China. The implication of this may be strong trust building and relations with the Chinese counterpart to avoid wrong interpretation of negotiations and by that establish reliable agreements and terms between the two parties.

3. METHODOLOGY

This report is written based on literature review as point of departure. It aims to analyse trust in negotiations from different angles by reading independent materials considering negotiation theory, the Chinese business environment, reputation and negotiations between Western and Chinese counterparts. Unfortunately the amount of materials on the specific issue of trust in relations to the Western and Chinese negotiations has been far exceeded by the materials on the Chinese business environment and negotiation theory. The thesis will in this perspective try to find a good balance among the issues.

By studying different researches on the issues of negotiations between Westerners and Chinese, the thesis search to elucidate different aspects of trust in negotiations and aim to analyse trust in the context of the mutual gain approach. The thesis structure is based on the theoretical framework as foundation, then a presentation of three elements; the Chinese business environment, reputation and tension in negotiation, which may influence trust between the parties. Lastly an analysis which seeks to integrate the previous chapters and also comprises the author's view is given. A weakness with the thesis is the term Westerners, which is a wide broad description. Westerners comprise mainly Americans, as the researches and articles have this focus. Furthermore, Chinese is also a wide term as Chinese differs in backgrounds and various experiences. In addition, a more comprehensive introduction to negotiations could have been given and more elements that affect trust could have been analyzed. The simplifications are made because the thesis extent and for avoiding a too general and shallow view.

The drawback of applying literature review as methodology for information collection is that all knowledge gained must be considered as second hand information. A better approach would perhaps have been to perform interviews with Western companies that are negotiating with Chinese companies and done a research on trust and relationship, but that would on the other hand perhaps be too extensive considering the limits of the thesis.

4. THEORETICAL FRAMEWORK

The theoretical framework of this thesis is divided in two parts. The conception of trust and trust related to risk, contracts, cooperation and cultural rule is presented. This gives a better understanding of how trust operates and diffuses. International negotiations contain more complexity because of language difficulties, difference in negotiation scripts and culture. Applying theory from the mutual gains approach can contribute to frame the negotiations and create a cooperative environment, because it focuses on creativity and value creation for both parts.

4.1 The conception of trust

Definitions of trust vary across disciplines in psychology, sociology and economics, and there are different levels of analysis, due to interpersonal, societal and institutional trust. According to Rousseau et al. (1998) the general definition of interpersonal trust is; “trust is a psychological state comprising the intention to accept vulnerability based upon positive expectations of the intentions or behaviour of another”. Similarly, Barney and Hansen (1994) define trust as “the mutual confidence that no party to an exchange will exploit another’s vulnerabilities”. Furthermore, Sztompka (1999), define trust as “a simplifying strategy that enables individuals to adapt to complex social environment, and thereby benefit from increased opportunities”. In situations when people have to act in spite of uncertainty and risk, trusting becomes the crucial strategy for dealing with uncertainty and uncontrollable future.

Mayer, Davis and Schoorman (1995) defined trust as “the willingness of a party to be vulnerable to the actions of another party based on the expectation that the other will perform a particular action important to the trustor, irrespective of the ability to monitor or control that other party”. (Malhotra and Mornighan, 2002). This definition will be the anchor in the thesis, because it grasps the importance of interdependency trust in negotiations, which objective is to create cooperation and value for both parts.

4.1.2 Trust and risk

Trust is important and particularly relevant in conditions of ignorance or uncertainty with respect to unknown or unknowable actions of others. Furthermore, it is a way of dealing with the actions of other people, and the risk of trusting is concerned that effort to evoke trust will

be backfired and abused in contempt instead of tightening relations. Placing trust means suspending and discounting risk and thus acts as if risk were not existent. In addition, when placing trust we behave as if we knew the future. Trust is only involved when the trusting expectation makes a difference to a decision. To mitigate risk and uncertainty in interpersonal interactions, individuals and organizations rely on both formal structures as hierarchies, regulations and contracts, and informal structures such as communication, norms and trust. Among the formal mechanism, the use of contracts is both prevalent and pervasive. Between organizations, contracts dictate the terms of buyer-seller relationships, alliances and joint ventures. Often, contracts make it possible for risk-averse parties to create mutually beneficial relationships. Trust can thus lead to more efficient negotiated agreements by letting parties act more interdependent and flexible to adjust to the changing surroundings and demands (Malhotra and Murnighan, 2002).

People act on beliefs, knowledge, memory and interpretation of past experiences. In the state of their future knowledge, beliefs and interpretations they will entertain in the future cannot be predicted at present, but they can modify the course of their actions on the basis of partial results already achieved and how negotiations have progressed in the past. On this basis negotiators can introduce corrections, abandon interactions, resign and turn back. To complete the perplexity of the situation, people tend through their preventive actions, falsify predictions, initially quite sound (self-destroying prophecies), or through their constructive actions make completely unfounded prophecies come true (self-fulfilling prophecies) (Scztompka, 1999).

4.1.3 Trust and contracts

The literature suggests that contracts and trust can or do substitute for one another. If trust has not been established, a contract that specifies the rights and responsibilities of the parties makes sense. If trust is strong, the parties may feel no need for the specifics of constraints of a contract. Instead, the ability to fulfil and tailor a more mutually beneficial agreement may be applicable. Yet, neither trust nor contractual agreements in isolation may be enough to secure long-term cooperation. On the one hand, contracts though important cannot address all of the contingencies that might develop in a relationship. This makes it necessary to cultivate trust. Some theorists suggest that the existence of a formal structure can diminish the viability of informal structures, and thus undermine the development of trust. Others have a suggested

that a mix of formal and informal structures is often necessary to manage complex relationships (Malhotra and Murnighan, 2002).

A research made by Malhotra and Murnighan disclosed that non-binding contracts had two important effects on participants. First they led to an immediate increase in the frequency of trusting actions. Second, they did not signal the kind of strong situational constraint that binding contracts signified. Binding contracts on the other hand can have a negative impact when they are poorly specified and differently interpreted by the parts. If contracts fail the security that they provide disappears and the parties feel “uncovered” and at risk. Thus, the collateral costs of losing a contract’s security suggest, paradoxically, that contractual relationships need more attention, not less, than relationships without contracts.

Furthermore, on the contrary to the commonly accepted notion that one must develop trust to take greater risks, then, these results suggest that it may be equally true that one might need to take greater risks to develop trust. Attempting to mitigate risks early in the relationship can make it difficult to build the trust necessary to take greater risks in the future. Similarly, Pilluta et al. (2002) found that trusted parties were less likely to honour trust when trustors had taken small rather than large risks. While trustors might feel that it is entirely reasonable to limit their initial vulnerability, trusted parties often attributed such actions to lack of trust, which was viewed negatively. The current results indicate that an added problem with minimizing risk early is that trustors themselves might find it difficult to take greater risks and trust more in the future.

4.1.4 Trust and cooperation

The most complex systems of trust appear in the situation of cooperation. “The importance of trust derives directly from the nature of human beings as social animals who can only satisfy most of their needs by means of coordinated and cooperative activities” (Sztompka, 1999). Cooperation occurs when acting together and aiming for a common goal, which cannot be attained individually. In such situations the success of each depends on the actions taken by others. This enhances the uncertainty and risk, because each of the parts is a free and principally unpredictable agent. In this perspective, trust acquires particular importance and is the precondition for cooperation and also the product of successful cooperation. In the situation of cooperation, trust means a set of bets directed at each of the partners, whom

expect to fulfil their parts of the job. As each of the partners makes such a set of bets towards each other, the network of mutual trust becomes extremely complex. On the other hand, distrust destroys cooperation.

Although developing comprehensive contracts may be necessary as stakes increase, cooperation can be achieved without them. Mechanism such as trust can help solve agency problems, facilitate market processes and increase cooperation within and between organizations. Trust increases cooperation in strategic interactions, information sharing in negotiations and the mutual benefits of interpersonal interactions.

For interpersonal trust and its antecedent attributions to develop, however, cooperative interactions are not sufficient. Cooperation must also be interpreted as a reflection of the co-operator's disposition of motives rather than to other situational factors. The use of binding contracts seems to have kept interacting parties from seeing each other's cooperative behaviours as indicative of trustworthiness. "If other people's actions were heavily contained, the role of trust in governing our decisions would be proportionately smaller, for the more limited people's freedom, the more restricted the field of actions in which we are required to guess ex ante the probability of their performing them" (Malhotra and Murnighan, 2002). Communicating trustworthy intentions and motives tend to convey to the counterpart.

4.1.5 Trust as a cultural rule

The decision to trust or distrust occur in a cultural context and from this perspective trust appears as neither calculated orientation, nor a psychological propensity, but as a cultural rule. Different rules are present for those who give trust and for those who receive trust. In addition, there are different social roles in the society considering trust. But there are also more diffuse expectations to trust or distrust, which become pervasive in some societies at some periods of time. Francis Fukuyama makes a distinction between high-trust cultures in which he includes several countries of the Far East, and low-trust cultures, in which he includes some countries from the West (Sztompka, 1999). Once the trust culture emerges and becomes strongly rooted in the normative system of a society, it becomes a powerful factor influencing decisions to trust, as well as decisions to meet or to reciprocate trust taken by many agents, in various social roles, and in many situations.

4.2 International negotiations

International negotiation distinguishes from negotiations between negotiators from the same country in different ways. The communication process and conception are different course the negotiation script is different in different cultural contexts. A negotiation script defines the nature of expectations associated with the negotiation process and these expectations, it is argued, are culturally variable (Kumar and Worm, 2003).

There is a suggestion that the conflicting negotiation script are at the root of interaction difficulties in intercultural negotiations. Conflicting scripts generate emotions (Blackman, 1997; Kumar, 1999), produce misunderstandings through attribution biases, affect the integration of the negotiated outcome and may lead to delay in attaining the negotiated outcome or trigger an outright negotiation failure. Although the content of the negotiation scripts is culturally variable, the impact of conflicting scripts is universally mediated by the presence of emotions attribution biases, which shape the subsequent interaction dynamic among the negotiators.

Though, the dysfunctional impact of conflicting negotiation scripts on negotiation processes and outcomes, it is not necessarily the case that a negative emotional dynamic and attribution biases among the negotiators will under all circumstances lead to a sub-optimal outcome or to an outright negotiation failure. Whether or not it does, depends on a variety of contextual factors surrounding the intercultural negotiation. Contextual factors encompass the nature of the negotiation, whether it is a transactional or a conflict management negotiation; individual differences; task complexity and the nature of the prior relationship among the negotiators (Kumar and Worm, 2003).

Negotiations are contextually embedded in the historical past, the immediate present and the prospective future. Prior interactions may have engendered trust or distrust among the negotiators. The immediate present and the prospective future may amplify, dampen or maintain the level of trust or distrust among the negotiators. In the case where the negotiators have had no prior history of interaction among themselves trust or distrust is not likely to be particularly strong and this itself become a factor of importance, depending on how the interaction unfolds over time. Pre-existing trust or distrust is important because it affects the motivation of the negotiators to overcome the dysfunctions inherent in the interaction.

Second pre-existing relationship condition the judgements made by negotiators about the stimuli that they encounter during the negotiations process (Kumar and Worm, 2003).

4.2.1 The mutual gains approach

The mutual gains approach has become extremely popular in Western negotiation literature and comprises a theory of negotiation focusing on the creation of value for all parties by focusing on inventing options that meet all parties' interests and by using objective criteria to fairly divide gains. This is rooted in the work of Howard Raiffa (1982), Roger Fisher and William Ury (1981), David Lax and James Sebenius (1986), Lawrence Susskind and Jeffrey Cruishank (1987) among others. The approach suggests that negotiation need not involve deception or aggression in order to achieve one's goals. Furthermore, findings from several fields have converged to suggest that negotiation can be seen as a process challenge in which more information about interests and more creative options can increase the benefits to all parties, creating better results and relationships. Adler and her colleagues found that employing techniques to search for mutual gains, coupled with having strong interpersonal skills, predicted better negotiation outcomes in China in terms of both profits and relationship satisfaction. Problem-solving approach to negotiation and tailoring the MGA to the context of China would be beneficial for the negotiation process (Movius et al., 2006).

Employing Larry Susskind and his colleagues at the Consensus Building Institute in Cambridge approach, MGA contains four stages and it is a prescriptive model that focuses on four sequential negotiation tasks: preparation; creating value, distributing value and follow-through. The model suggests that preparation is the most important of these four and it advises parties to understand their own BATNA (Best Alternative to Negotiated Agreement), but also their counterparts BATNA. Moreover it suggests that parties can achieve better agreements by transforming single-issue negotiations to multiple-issue negotiations; by trading across issues that are valued differently by parties, by inventing options neither party had previously envisioned; by creating contingent agreements to handle disagreements about the future; by adding new issues and by and through other means. It underscores that conversations about dividing gains should be delayed for as long as possible and that following-through effectively requires monitoring, alignment, relationship-building and dispute resolution provisions. In this context, the model is used to describe how a general

strategy for creating value and protecting relationships can be bolstered by attention to additional factors, before, during and after the negotiation (Movius et. al, 2006).

4.2.2 Preparation

There are several points to consider when preparing for a negotiation. To begin, clarifying negotiators mandate is related to achieve more certainty about what your organization can procure in the negotiation process. Team organization is of relevance to maintain an effective distribution of responsibility and information processing during the negotiation.

In the preparation process estimating own and the counterpart's BATNA, is crucial to know when your options with your counterpart are worse than you alternatives, and thus when you should walk away from a deal. In addition, knowing your counterpart's BATNA is of relevance to know in which issues you can persuade.

Defining and knowing own and the counterpart's interests are vital to identify which concerns and underlying interests negotiators can explore and create options and solutions with. By doing so, it will be easier to suggest mutually beneficial options. In addition negotiators should be aware of objective criteria, which is important in distributive issues.

In searching for an efficient process, creating and establishing procedures are important to maintain good terms for the achievement of the goal in the negotiation. Furthermore it is important to gain interplay between the strategy and the negotiation. Lastly, emphasizing comprehensive information collection is important for the foundation and preparation of the negotiation, especially when mapping the counterpart's interests and develops a negotiation strategy.

4.2.3 Creating value

Understanding and exploring both side's interests opens to discussion, developing and exploring mutual beneficial options. In this creative process suspending criticism and inventing without committing will increase the efficiency in the value creating process. The concentration should be on generating options and packages that "make the pie larger".

Gaining a cooperative atmosphere is vital, and in cross-cultural negotiations and if the communication process is poor, neutrals can contribute.

4.2.4 Distributing value

Behaving in ways that build trust may improve the communication process and cooperation between the negotiators. In distributing value, standards or criteria for “dividing the pie” should be applied and designed for nearly self-enforcing agreements. In addition neutrals may be used to suggest possible distribution.

4.2.5 Follow-through

In the final stage of negotiation, agreeing on monitoring arrangements will reinforce the commitment on the agreement. To further support the commitment it should be easy for the parts to live up to their commitments. In case of conflicts during the contract the parts should agree to use neutrals to resolve disagreements. Furthermore, focusing on improving the relationship is important for the parties comply with the obligations agreed between them.

4.3 Discussion

Trust influences interactions and relations. Furthermore trust is an important factor when placing risk and it also affect shaping of contracts. The chapter suggests that if trusting relations exist, there may be room for more flexible negotiations and also less rigid contracts. This is beneficial be dynamic in a changing environment. Cooperation is an important factor in the mutual gains approach, where the parts are focusing on inventing options and creating added value. Trust increases cooperation in crucial task as for instance information sharing. The reason for using the mutual gains approach is because the world is globalizing and negotiators are getting acquainted with a variety of cultural practises and differences in negotiation scripts. In this, searching for mutual gains which implies a cooperative approach it may be easier to overcome the barriers between the parties.

5. THE CHINESE BUSINESS ENVIRONMENT

North's theory of institutional change offers a framework to explain institutional changes in a society with rapid changes. Institutions are the "humanly devised constraints that shape human interactions" in society. They are the "rule of the game" that structure incentives in social, economic and political exchanges. Organizations and individuals are the players in the game who respond to the incentives and try to maximize their gains in the game. Institutions fundamentally determine economic performance of a society through their incentive structure and their efficiency in lowering transaction cost. Differences in economic performance between countries are primarily due to the difference in institutional changes over time. Two institutional constraints are distinguished. The first is formal constraints, that are explicit devices by humans, including laws, political and economic rules, and contracts. Formal constraints are vitally important for a society's social order and economic performance. However, formal constraints usually consist of a small part of all institutions that shape human interactions in a society. Informal constraints on the other hand, govern social interactions including values, norms and conventions. Informal constraints are the foundations for formal constraints, but formal laws may reinforce informal laws. Some scholars conclude similarly with social trust. Societies, in which the rule of law is better enforced, tend to have a higher level of generalized trust among unrelated parties. Discrepancy between formal and informal laws is especially pronounced in societies undergoing rapid institutional change (Shaomin, 2004).

This chapter will deal with formal and informal framework in China. First a brief introduction to the economic and political environment will be given to get a better overview of how the institutional framework works in China, because conditions are very different from Western countries. Thereafter, an in dept discussion about the Chinese culture will be given to achieve a better understanding of how cultural norms may influence the negotiation process and the negotiation script.

5.1 Economic and political environment

A rule-based governance system requires a high fixed cost to establish the legal infrastructure and low marginal cost for enforcing contracts. It requires fair and transparent rules and the ability of the state to impartially enforce these rules. It also relies on high-quality, publicly verifiable information such as accounting, auditing, and notary information to reduce the cost

of enforcement. However, when such public information and enforcement of rules are lacking, the state is unable to enforce contracts impartially and people consequently rely on personal relationships to govern their interests and transactions. This represents the relation-based, or guanxi-based governance system that dominates in today's China.

In relation-based transactions, information tends to be private and unverifiable by people outside the relationship. In order to protect their investment in relations and their partners from rivalries, people tend to keep relationships exclusive and secret. This, plus the opacity of government, has resulted in the dearth of public information about firm performance in China for prospective investors. High government intervention makes it difficult to manage the jungle of bureaucracy. Furthermore, gaining adequate market information is hard, and secret regulations and laws are enforced, but not publicly announced to foreign firms and non-Chinese attorneys.

Nonetheless, the Chinese government is undertaking the development of formal institutions. From 1978 to 2001, China has introduced 375 laws and legal regulations, whereas 178 are to varying degrees related to economic activities. Though, the present constitution was written by the Chinese Communist Party and it gives the party absolute power and establishes communism as the sole legitimate ideology. Unlike democratic constitutions, the Chinese constitution is not a basic law that safeguards the fundamental rights of citizens, limits the power of government, and institutes checks and balances of power. In this, private property is given less status than socialist public property, which is inviolable. Private property is not protected against state expropriation (Shaomin, 2004).

Most commercial and economic laws of China are modelled after Western laws (specifically after German civil law origins). However, according to the communist constitution, all corporations must obey the "four cardinal principles": the Communist Party's rule, socialist road, communist ideology, and people's dictatorship. Under these "cardinal principles", China's commercial laws, such as the Corporation Law and Anti-Unfair Competition Law, cannot be fully implemented. A corporation's operation must subject to party leadership and confirm with the official ideology (Shaomin, 2004).

5.2 Culture

Though formal laws change rapidly, informal laws as culture change more slowly. The culture is rooted in different philosophies and way of perceiving life, which has bounded the Chinese people during the history. Chu and Ju (1993) conducted a survey of rural and urban Chinese in the late 1980's and found evidence of changing in traditional Chinese values, though interestingly the long historical heritage and loyalty, diligence and frugality, and devotion to state scores highest (Jandt, 2004). This implies that although culture changes over time there will be elements that are rigid for a greater period.

5.2.1 The roots of Chinese culture

The Chinese culture is influenced by collectivism, which evolved especially in the agrarian society, when people were more interdependent on each other and survival depended on group cooperation and harmony. In addition, obedience and loyalty to familial hierarchy bound labouring groups together. It is also a high-context culture, which means that less has to be said or written because more of the meaning is in the physical environment or already shared by people. Most of the information is either in the physical context or internalized in the person. Very little is in the coded, explicit, transmitted part of the message and there are more sensitivity to nonverbal messages. In high-context cultures people are brought closer by the importance of their shared context, which contrarily is often lost in low-context cultures in the West (Jandt, 2004).

Consider morality, the Chinese are in general adopting new ways of thinking and orientate. Multiple religions and flexible attitudes confuse Western, who may see Chinese people as unreliable, applying seemingly inconsistent standards for dealing with people and situation. Though, the Chinese know under which circumstances to apply the different principles. In this there are three major religions, though Chinese are not a very religious people, they apply philosophy from Confucianism, Taoism and Buddhism.

Confucianism focuses on human relationship and has five cardinal relationships: between ruler and ruled, husband and wife, parents and children, older and younger brothers, and friend and friend. In this, obedience, loyalty and benevolence between rulers and the ruled are of importance to maintain social harmony. Many cultural norms relevant to negotiation are

mentioned in Confucians writings, including guanxi, hierarchy, paternal leadership and the conception of “face”.

At the same time, Taoism focuses on life in harmony with nature. The harmony involves the relationship of yin (the feminine, dark and passive force) to yang (the masculine, light and active force). Furthermore, simplicity, contentment and contingency are important factors in achieving harmony and the path is in more focus than finding the truth. This can be expressed in the Chinese negotiation style when they are searching for a compromise and a common ground and often focusing more on the process than the goal.

Another cultural factor is Chinese people’s awareness of foreigner’s, which can be rooted in the violent history of attacks and civil wars. The combination yields cynicism about the rule of law and rules in general. It can be said that the Chinese trust in only two things; their family and their bank accounts (Graham, 2003).

Ancient Chinese military strategies may also influence the approach to negotiation. Sun Tzu’s wrote “The Art of War: Thirty-six Stratagems”, which describes how to defeat enemies and competitors. According to Sun Tzu, the best way to fight is to “conquer one’s enemy without fighting” and the war begins before two armies meet and it happens in the minds of the competing side’s generals. These principles can be applied to negotiations. The Chinese word for negotiation “tan pan” has a confrontational connotation, whereas “tan” means talk and “pan” means judgement. Together, “tan pan” is the process of using combination of tactics to increase one’s own gains, and is used in more formal situations. “Shang liang” is the common phrase to use about negotiations, and it means “talk about the deal” or “discuss the business”. This implies that Chinese “do business” with potential partners, but “negotiate” in more formal settings or with potential enemies or rivals, and thus one should perhaps not begin by negotiating specific terms and conditions, but rather develop a relationship with interaction. Past partnerships and an existing social network are good assets and if your negotiation counterpart does not view you as an “old friend”, he or she is likely to default to a reliance on stratagems that emphasize defeating one’s opponent. Developing a good relationship is thus a very important factor.

5.2.2 Current cultural norms

Guanxi (Personal connection)

There are two basic arguments on why the Chinese rely on guanxi. The first is a cultural approach, which argues that the influence of the traditional Chinese culture is the fundamental reason for the use of guanxi in the Chinese society. The second argument is an institutional approach, which argues that the predominant reliance on guanxi in China is due to lack of formal institutions, such as an impartial and efficient system may mutually reinforce each other in cementing the role of guanxi in China's social exchange. Scholars of the cultural approach tend to think that the role of guanxi will remain essential in China, while scholars of institutional approach predict a decline of guanxi as the mode of governance as China's legal system improves.

However, Chinese are very sensitive to the difference between strangers and people they know and the use of interpersonal connections or guanxi is still vital in the Chinese society. Guanxi is a special relationship between individuals in which each can make strong and often nearly unlimited demands on the other, and exists among family members. Though, guanxi can also arise among unrelated people who have close interactions or common experience. Guanxi affect business opportunities in China and information are often kept inside the networks. People are an important factor in the guanxi network and in negotiations people involved may be more important than facts and information. Sometimes a manager will work with the right person rather than the right contract and often connections trump qualifications Adler and her colleagues found that employing techniques to search for mutual gains, coupled with having strong interpersonal skills, predicted better negotiation outcomes in China in terms of both profits and relationship satisfaction. Problem-solving approach to negotiation and tailoring the MGA to the context of China would be beneficial for the negotiation process (Movius et. al, 2006). It implies that when several companies are competing for contracts will the company with best quanxi usually win the contract. If a company possess good guanxi it will in addition be easier to connected with important people and in that perspective achieve important meetings with potential business partners. Another factor is that most Chinese view business as a part of guanxi and vice versa.

Guanxi works in the way that by giving a favour to one party you can expect a favour in exchange. Chinese remember help, because they see it as an obligation and fulfilment of

obligations is part of the relationship and a part of morality. A favour can and should be returned later and often in more than equal value and by doing so, guanxi continue to exist. Ignoring to return a favour is seen upon as immorality and will make it very hard for a company's future business. Nevertheless, if there is no favour involved, negotiations may default to a more formal set of procedures and more formal language used for outsiders. For foreigners operating in China, guanxi and intermediaries are crucial and strong network ties enable the negotiators to gain benefits of access, timing and referrals. Access relates to the negotiators ability to obtain valuable information, timing to how soon such information is made available, and referrals relate to the ability to secure information about other individuals within the network, or to other projects that may be of interest to the actors.

According to a research made by Kumar and Worm (1993) North European said "You cannot do business if you don't have guanxi and know something about the guanxi relations in the Chinese organization you are dealing with. Our local people have an excellent guanxi network. I can call the boss of all major organizations and set up a meeting because of good guanxi". The Chinese negotiators reinforced the importance of guanxi in doing business with them making the essential point that the presence of guanxi makes it easier for the Western negotiators to convince their Chinese counterparts. Though, guanxi is perhaps not strategically significant as earlier, Chinese are conceding to a degree that socializing is not all-important but still noted as important, and especially so in the context of establishing a long-term relationship.

Zhongjian Ren (The intermediary)

Intermediaries are crucial to lower suspicion and distrust from Chinese counterparts towards strangers. In Western countries others are normally trusted until the opposite is proven, though in China without an intermediary to build trust it is more difficult to establish and maintain business relationship. Trust must be transmitted via guanxi, which implies that a trusted business associate of yours must pass along to his trusted business associate. Finding the personal links to your target organization or executive is the first task in the negotiation process. In addition, intermediaries play an important role, because of the difficulties penetrating Chinese networks.

At least in the early stage of the negotiation process, the intermediary is important to interpret the moods, intonations, facial expressions and body language of the often vague Chinese counterpart. In addition it may be easier for the intermediary to understand the two parties.

Shehui Dengji (Social status)

The social status is of importance and is based on the Confucian philosophy. The society is very hierarchical and the high-ranking manager is expected to do the final decision, though he or she has not participated in the negotiation. In closing a deal it will be important to identify the decision maker (Sebenius, 2002). In China business teams emphasize agreement within the team, though usually the decision will depend on only one or two key individuals. Another factor is the age and respect for hierarchy in this perspective. For example, an American company sent a relatively young and low-level sales representative to a high-level negotiation and the Chinese felt insulted and doubted the sincerity of the Americans. The negotiation ended before it started. The different hierarchical levels among the Chinese team members imply different roles in negotiations and it is important to distinguish the players.

Kumar's and Worm's research found that the northern European negotiators often had a hard time identifying the pattern of interconnections among the Chinese negotiation team. Although it is now easier to determine who the boss was, it was not clear how best to deal with the negotiation team in the absence of a good understanding of their intra-group dynamics. "Sometimes it is difficult to see who has the power. If negotiations are not going well it is often more difficult to penetrate their internal power structure".

Renji Hexie (Interpersonal harmony)

There are different Chinese sayings about relationship issues and harmonious relations between business partners that hold relationships of equals together (Graham and Lam, 2003). Relation building which includes dinners, events and so on are becoming less important, but establishing and maintaining relationship is still crucial for negotiations. Moreover, trust and harmony are more important to Chinese businesspeople than any piece of paper. Until recently, Chinese property rights and contract law were virtually nonexistent and are still inadequate as mentioned earlier. Chinese businesspeople rely more on good faith than on tightly drafted deals. While contracts are becoming increasingly important and more likely to be enforced, Chinese negotiators still insist on satisfaction with the spirit of the deal.

If Westerners do their best to maintain sufficient renji hexie, the Chinese will consider their counterparts' interests even if negotiations get rocky. One example is that a Western company threatened his Chinese counterpart with a lawsuit demanding final acceptance of a signed contract, after good renji hexie the relation was re-established and after appealing to mutual long-term interests the Chinese counterpart resumed the negotiation (Graham and Lam, 2003).

Zhengti Guannian (Holistic thinking)

Chinese think in terms of the whole while Westerners tend to think sequential and concerns more about details by breaking up complex negotiation tasks. Chinese negotiators tend to talk more about issues all at once, skipping among them and seeming never to settle anything. By going back and forth and focus on equally valid position they may be interpreted as haggling, when the intention is rooted in the philosophy. Though, Chinese teams tend first to establish agreement on general principles before moving to more specific issues in order to avoid or postpone direct conflict. The holistic thinking influences the non-task conversation and Chinese and Westerners often focus on different aspect of the topic. The Chinese language is pictographic and they have a holistic way of processing information in contrary to Western, which are more oriented towards details.

Mianzi and Lian ("Face" or social capital)

The Chinese "face" conception is related to Westerners conception of dignity and prestige, and is similar to trust. In Chinese business culture a person's reputation and social standing is dependent on saving face. The conception reflects the complexity of interpersonal relationships in China. Whereas mianzi refers to a person's status or prestige derived from personal accomplishment and reflects the place in the social network, lian on the other hand refers to the internal attributes of the person like morality. It is difficult to mend actions that influence lian in a negative way. Negotiating anger, frustration and aggression at the negotiation table may result in mutual loss of face and is difficult to repair. Quote from a European negotiator: "Face is like trust. If you repudiate a Chinese you have lost him. On the other hand one cannot praise people enough in China", (Kumar and Worm, 2003). Though, if Chinese possess a positive schema of their foreign counterpart they may be willing to be more generous or tolerant. Chinese tend to make less extreme judgments compared to their Western counterparts and furthermore they tend to be harsher when making person related rather than task related judgments.

Chiku Nailao (Endurance, relentlessness or eating bitterness and enduring labour)

Chinese focuses on chiku nailao as being important and honourable in contrary to Americans why place high value on talent as a key to success. Chinese diligence is usually reflected in two ways at the negotiation process. First, the Chinese will have worked harder in preparing for the negotiations than Westerners and secondly, they will expect longer bargaining sessions (Graham and Lam, 3004). Endurance and patience are very important components in the negotiation process and also wait for concession, which normally come in the late parts of the negotiations.

5.3 Discussion

This chapter has discussed different aspects of the Chinese business environment with emphasize on culture. The formal constraints give implications on differences in Western and Chinese governance. Surrounding conditions influence the way business is practised and will be a part of the explanation for differences in culture and negotiation practises.

China is a relation-based society where public information is poor and understanding the importance of guanxi and other cultural norms are crucial for obtaining information. Having knowledge of how guanxi works is vital for the negotiation process to build trusting relations. To penetrate Chinese business operations guanxi is important to connect with the right people and intermediaries are important to get entry to guanxi networks. The conception of face is also crucial to be aware of, though foreigner can in trusting relations be forgiven if the norm is violated. Furthermore social status and the holistic way of thinking influence the negotiation process. Social status is important when communicating with the Chinese negotiation team and to avoid face spending. Furthermore, holistic way of thinking affect the negotiation process in which Westerners and Chinese has a different way of perceiving time, which again can contribute to tension in the progress.

Differences in cultural norms and business environment enhance further the importance of trust in negotiations as it creates more tolerance between the parts. Having good information about the counterpart and the context surrounding negotiation may lead to a more cooperative negotiation climate and more creativity in the process because of better understanding of the underlying norms and practises.

6. REPUTATION

Reputation is important because people characterize and categorize each other and this affect how people perceive intentions and how they interpret statements. In negotiations reputation can be a hinder in gaining an efficient process, because important information may be overlooked if information is wrongly interpreted in the context of reputation. The purpose of this chapter is to look further into how reputation operates considering discriminative encoding and how distributive reputation influence negotiations.

6.1 The concept of reputation

Reputation is according to Webster (1996) the general character attributed to a person, meaning reputations are not a summary of various haphazard traits, but rather they evoke a set of related characteristics of a person that form a coherent image. Thus, a counterpart's reputation evokes a person-schema or stereotype of that counterpart. This schema provides a negotiator with information about the counterpart's character, which helps the negotiators anticipate the counterpart's action and interpret their underlying intention. It is difficult to know if the counterpart's behaviour is an attempt to create value or claim value. Because negotiators have limited information, scheming of people is used to interpret information, thus a negotiators reputation may be important for how information is interpreted by the counterpart (Tinsley, 2002).

6.2 Discriminative encoding

Discriminative encoding and scheming of people and situation is suggested by Schul, Burnstain and Bardi (1996), who found that when a respondents had to read a set of messages about a person, those who were made suspicious about the validity of one message needed more time to read the set and integrate the messages than was needed by those who were not made suspicious. The explanation is that suspicion increased the complexity of encoding by delaying the integration of the messages within a single interpretative frame, while promoting the construction and testing of alternative interpretations, called counter-scenarios. If one cannot trust another's word, it is common to consider what might happen if the opposite of what the other says is true. Thus, on suspecting a communicator, receivers can deliberately attempt to protect themselves with thinking about potential counter-scenarios. Although initial acceptance might be a desirable processing strategy in the context of trust, it is not functional

in the context of distrust. In conditions of distrust, a message spontaneously activates alternative meanings incongruent with it. To some extent encoding incoming messages in a suspicious context differently from those in a trustworthy context, people search to protect themselves from falsehoods.

6.3 Distributive reputation

According to a research made by Tinsley et al. (2002) a party with a distributive reputation, despite his or her relative expertise is unable to create joint value or to claim individual value. The relative experts in the control group were able to achieve significantly more value than their novice counterparts. For those experts assigned a distributive reputation the advantage of their relative expertise was outweighed by the disadvantages of their distributive reputation. As a result, they did no better than their novice opponents. Findings show that reputations are powerful determinants of the exchange process. This implies that it seems critical for negotiators to attend to these effects. Although all negotiations ultimately require value claiming skills, negotiators should be wary of developing a reputation for being a bargainer who prizes claiming value over other goals, as this is likely to undercut profits when integrative issues are on the table. From this perspective it is easy to see that negotiation reputations are a form of social information that can develop and diffuse quickly within and across organizations. The study shows how social information (negotiator's reputation) shapes these judgments. Parties attend to social information to shape their judgments about the opponent's intention and these judgements affect the negotiator's behaviour, the counterpart's responses and the outcome. This implies that reputations are likely to be a critical antecedent to the kinds of cognitive biases and errors that have been found to limit outcomes. A counterpart's distributive reputation appears to inhibit negotiators from taking the risks necessary to achieve high quality agreements.

6.3 Discussion

Propose of this chapter is that reputation influences how negotiators reputation triggers person schema and context related interpretations of intentions. Under distrust counter-scenarios are activated as people seek to protect themselves from falsehoods. On contrary under trustworthy contexts information is perceived more correctly and it may be easier to establish a more efficient negotiation process, without too much buzz of alternative interpretations

between parts. Furthermore, a distributive reputation hinders cooperation as interpretations of intentions leads to changing behaviour and obstacles in information exchange.

Applying this in a cultural setting, cultural reputation may lead to obstacles in cross-cultural negotiations. Scheming of the counterparts can be done in the context of the culture, which may influence both positive and negative depending on the given reputation. In addition it can cover intentions from the counterpart, which can hinder communication. Especially in integration negotiation exploring and communicating interests is the foundation for creating mutual gains.

The implication is that a trust in negotiation can contribute to lower interruption of reputation influence. It is important to be aware of the influence a reputation can make on perception and communication with the counterpart.

7. TENSION IN NEGOTIATION

Cultural differences and reputations are factors that influence the efficiency in negotiation processes. Particularly communication is important in negotiations and cross-cultural differences and reputation contribute to increase conflicts. Conflicts leads to tension, which is feelings that can more easily be triggered when lack of trust. Too much tension in the negotiation can negatively influence the outcome and relation between negotiators. This chapter will be based on the research of Lee, Yang and Graham (2006), which look at tension and trust in international business negotiations, focusing on American executives negotiating with Chinese executives. The focus will be on tension in connection to attractiveness, atmosphere, trustworthiness and cooperativeness during negotiations.

7.1 The concept of tension

Collins Dictionary (2003): 'Tension is the feeling that is produced in a situation when people are anxious and do not trust each other, and when there is a possibility of sudden violence or conflict'. There are different explanations and definitions of tension and it is difficult to define, but it is a feeling or something felt in negotiations. However, tension and emotions in negotiation tend to have a negative consequence resulting in decreased and ineffective communication, due to rigidity of thinking, reduced creativity and problem-solving activities, further escalation of emotions, hostility, harder bargaining, difficulty in processing information, more rigidity, inaccurate perceptions and generally worse outcomes. In addition anger is described as reducing trust, problem-solving activities and will affect the qualities of agreements. Though, a little emotion is good, but a lot is bad (Lee et al., 2006).

7.2 Tension and attractiveness

Tension felt during the negotiation impact on relational aspects to a greater extent for the Chinese than for the American. For the Chinese negotiators attractiveness mediates the relationship between tension, trustworthiness and expectations about cooperativeness from the counterpart. Greater tension appears to encourage agreement for the Chinese but in addition lowers attractiveness. For the Americans tension directly influenced both trust and future cooperation, but it does not influence on attractiveness to the same extent as Chinese. Americans felt more frequent tension and felt it sooner in the process, in addition they had a more negative forecast of future negotiations with the Chinese (Lee et al., 2006).

The Chinese culture holds more restraints and politeness toward maintaining interpersonal harmony and preserving face. In addition, Chinese feel and display lower levels of intensity, frequency and duration of emotion and they are more focused on saving face. In the Chinese culture emotional expression might be considered dangerous, irrelevant, uncivilized, juvenile or illness-causing. On the contrary, Americans are from an 'argument culture', where emotional tactics is acceptable in many circumstances. It is common to take a more competitive approach and value objectivity. This may be shown in statements like 'separate the people from the problem' and 'there's nothing personal about this', which is a usual view in Western negotiation theory. Furthermore, it is more common in individualist cultures to tolerate expression of individual anger to a greater extent than collectivistic cultures.

Nevertheless, both Chinese and American negotiators perceive the primary cause of tension as the other's intransigence. Furthermore, aggressive behaviour was an important factor causing tension for both groups, but in different ways, whereas Americans were more directly and Chinese more indirectly aggressive. The indirect communication led to suspicion towards the Chinese for the Americans. Americans focus on information and getting it straight. Chinese are more interested in maintaining interpersonal harmony, face saving and finding 'the way' as reported by the Chinese executives. In addition, Chinese negotiators reported lower levels of tension than the Americans. Implications may be differences in what causes the tension and how it is comprehended (Lee et al., 2006). Furthermore, the perspective of time is different for Chinese and Westerners and can cause frustration when different logic appears among the parts. Chinese view time as circular and Westerners on the other hand view time as linear (Jandt, 2004).

7.3 Tension and atmosphere

For the Chinese negotiators an atmosphere of cooperation seems to reduce tension. The atmosphere surrounding the negotiations affects how parties regard each other's behaviour and properties of the process (Lee et al., 2006). An atmosphere of cooperation will tend to reduce tensions and emotions during negotiations, and contrary an atmosphere of competitiveness will increase them. Furthermore, competitive tactics lead to negative emotions at the negotiation table. Early offers, concessions and other tactical behaviour tend to reduce communication between actors and threats often lead to hostility. Moreover,

competitive behaviours such as deception, excessively high demands and causing the other part to lose face can all trigger anger (Lee et al., 2006).

7.4 Tension, trustworthiness and cooperativeness

Attractiveness and trustworthiness are interrelated, and this applies to both Americans and Chinese. Nevertheless, there are no relationship between attractiveness and expectations about cooperativeness. Trustworthiness influences both American and Chinese negotiators expectations about cooperativeness and there were no cross-cultural differences in the two antecedents liking and trust. Higher tension had a negative influence first on interpersonal attraction, then on trustworthiness and finally on expectations about American cooperativeness in the future. Likewise, although not influenced by tension felt, interpersonal attraction did have a strong influence on trust, and trust had a very strong effect on American expectations about future Chinese negotiators behaviour. Finally tension felt also had important direct and negative consequences on both perceptions of trustworthiness and predictions about the future cooperative behaviour of the Chinese (Lee et al., 2006).

7.5 Agreement

Reaching an agreement or not has no impact on expectations about trustworthiness or future cooperativeness of cooperativeness of negotiation counterparts. They are not perceived more or less trustworthy and cooperative (Lee et al., 2006).

7.6 Discussion

How tension influences Westerners and Chinese during negotiations is shown in the aspect of attractiveness, atmosphere, trustworthiness and cooperation. Underlying elements that can affect tension levels are cultural difficulties and reputation, which was discussed in previous chapters.

Higher levels of tension have a negative influence on both Westerners and Chinese, but the underlying condition seems to vary. Westerners have a direct way of communicating and are not affected by attractiveness to the same extent as Chinese. Still, attractiveness and trustworthiness are interrelated and interpersonal attraction has strong influence on trust for

both Westerners and Chinese. Nevertheless, Chinese are focusing more on attractiveness and the relational view than Westerners, and this can frustrate and trigger tension between the negotiation teams. Trust is an important factor for establishing a cooperative atmosphere and the latter can contribute to reduced level of tension between the negotiation teams.

Lower tension, and trust in negotiations lay foundation for a cooperative process that is important for a mutual gain approach. Inventing options and exploring interests require good communication and cooperativeness. Being aware of what triggers tension on both sides is important to create a good negotiation climate and in trying to avoid too much tension. Discussing conflicting areas and rising of tension is good when made constructively, though cultural differences and reputation may affect the way negotiators interpret intentions and thus trigger a tension level that is bad for the climate.

8. TRUST AND MUTUAL GAINS APPROACH

In relation to the research made by Kumar and Worm (2003) trust is more enduring in China and is built on face-to-face communication. Chinese focus more on relation-based trust than Westerners. Furthermore the society is collectivistic and trust building is considered vital to successful negotiations. Comments from Chinese managers were consistent with this “Chinese believe the development of trust takes time, but by the same token it is enduring”. European managers view was that “trust based relations are kept, payment terms may or may not be kept”. Westerners tend to focus more on cognitive-trust in contrary to relation-based as the Chinese add more focus on. This may be reflected from the differences in institutional framework between the business environments.

Considering different aspects and context of trust in cross-cultural negotiation processes, the purpose of this chapter is to discuss trust in relation to achieving efficiency in negotiations between Westerners and Chinese. The chapter will integrate previous chapters and to analyze different aspects on how trust may contribute to improve the negotiation process, within the theoretical framework of mutual gains approach.

8.1 Preparation

Clarifying mandate and negotiation team before the negotiation will make it easier to match the Chinese counterpart. Western and Chinese teams usually differ in size and the Chinese team tends to be larger. Otherwise the Chinese counterpart may interpret the meeting as not reliable in building guanxi and that their counterpart only takes little interest in achieving a contract. Matching teams imply trust as harmony and balance between negotiation parts are important for the Chinese. In addition, knowing the counterpart's team organization is important in preparing for how to relate to the different people. Hierarchy is vital in China and thus different people in the negotiation team have different roles in the decision-making process, although agreement within the team is preferred. Furthermore, identifying the decision maker and seeking to build guanxi with him or her is beneficial to the negotiation process because the Chinese team will regularly consult their paternal leader, and in the end he or she will make the final decision, which can be more easily made through having a good relation with the team and the decision maker. Establishing trust through interpersonal relations with the team is thus important; in addition according to Sebenius (2002) mapping all of the

players is important for the outcome of the negotiation. The players will be all the people that can influence on the negotiation process and agreement.

Before the negotiation starts it is important to map players and obtain knowledge about the Chinese network and which players who hold guanxi. This is important in the initial stage because guanxi reflects trust between participants. Without guanxi, a negotiation will not normally be executed and the likelihood decrease when foreigners are the counterpart. The reason for using guanxi is to reduce risk, and particularly when foreigners are involved Chinese have had a tradition of being more suspicious. Moreover, trust building in the initial stage will be important for both parts and can initially remove some of the risk, because the two parties have knowledge of each other. Guanxi can be made through intermediaries, whereas people connect the two parts and set up a negotiation. It will be important to find an intermediary that has good guanxi. This can be difficult to know as Westerners may encounter difficulties with penetrating the guanxi network. Though, penetrating the guanxi network through a suitable intermediary is a good strategy, because good access to guanxi networks is crucial for obtaining adequate information. As result of the poorly developed institutional framework, it is difficult to obtain public information and information is spread through guanxi networks. Comprehensive information about the players and the company's interests is important to reveal both part's BATNA and in addition to contribute to the analysis of interests. Chinese negotiators will use their guanxi network to collect information about their Western counterpart. By having sufficient information about each other it may be easier to trust potential relationship as the companies are familiar with each other. Chinese are known for cross checking information about potential partners and trust is vital for the Chinese to consider negotiations.

Patience in the initial stage will be beneficial in creating trust, connected to the Chiku Nailao and endurance and relentlessness in the process. As trust takes time to develop it is important to focus on establishing it through good relationship and meetings, informal and formal. Though preparing for procedure in the negotiation is beneficial for the process. Chinese have a holistic way of thinking and contrary to Westerners who tend to proceed linear in the negotiation. Establishing good procedures for the process is beneficial in taking care of both parts interests and differences in negotiation script. Procedures are important to foster understanding and a good negotiation climate. Unconsciousness of the clashes in negotiation script and failure in establishing good procedures may lead to misinterpretations and negative

emotions, which in turn foster a negative atmosphere and may hinder efficient negotiation. If both parties are conscious about differences in each other's negotiation scripts, frustration and misunderstandings may be less vital in the negotiation process. In addition, by establishing a cooperative climate limits the development of tension, which has a negative influence on cooperativeness which in turn is important to create trust.

Reputation of the company and negotiators are connected with *mianzi* and *lian*. The two components determine to some extent if the people and thus the company can be trusted. Chinese traditions treasure the importance of interpersonal relationships and personal qualities such as integrity and the process surrounding the negotiation. Experience from encounters is important for Chinese negotiators how they perceive their negotiation partners and will affect the way they handle future business relationships. They often test their partners on whether their counterparts are trustworthy. This implies that it can be useful to be aware of possible reputation of the company and the team, since it may influence information processing and scheming from the counterpart.

Furthermore, it may be clever to make a strategy for avoiding tension early in the negotiation as tension influence the progress and often influence the process in how the development of a potential agreement proceeds. The conception of face is an important social norm still, and traditionally Chinese avoid discomfort and they may be more motivated to settle for less than an optimally desirable agreement insofar as the emergence of the agreements helps the negotiators in achieving their face related goals. This is based on the collectivist cultural background as they prefer conflict avoidance and tend to be more sensitive to emotions stemming from violations of relational norms than from emotions stemming from failure to attain desired goals. More individualistic cultures rather are not afraid of direct conflicts. Chinese may settle for a less than optimal agreement it influence the way relational and attractiveness aspects of the counterpart, which may influence the reputation and lead to ending relations. In addition, the mutual gains approach is seeking to find an optimal solution so being distributive and aggressive in negotiation may harm long-term relations and trust between the parties. A bad reputation may be spread in the *guanxi*-networks and thus hinder other potential negotiations because trust and relation are violated.

8.2 Creating value

Chinese are familiar with the conception of mutual gains and a “win-win” strategy is dominant in Chinese negotiation textbooks and it relates to their culture of relations building, and gaining too much from a counterpart is negatively viewed (Movious et. al. 2006).

The process of formulating a mutually agreeable contract can provide a basis for building trust. Positive interactions during contractual bargaining can lay the groundwork for building trust that may be needed when contract stipulations are insufficient to ensure mutual cooperation. In contrast, contracting process and accentuate latent conflict can be negative when past abuses is present (Jeffries and Reed, 2000). Trust is especially important in the Chinese business environment with poorly developed institutions. A focus on long-term relationship is present and trust is vital in the continuing relationship.

Before the parts begin to explore interests it is important to have a mutual understanding about the objectives in the negotiation. Gaining a high level of shared understanding is likely to strengthen the personal relationship among the parties. Finding a mutual objective can help the creative process, whereas the parts are searching for a common goal and trying to reach it by elaborating on interests. In looking for and creating mutual gain, information exchange Information sharing and disclosing of underlying interests is crucial to create an effective integrative negotiation. Chinese negotiators are not considered willing to exchange information. Nevertheless, the findings from Kumar’s and Worm’s research (2003) uncovered that the majority of the northern European respondents noted that the Chinese are willing to disclose information provided that they have it. A common perception among our northern European respondents was that the Chinese were unaware of the existence of the relevant information and did not possess the relevant information. If Westerner’s are not aware of this it may trigger tension and distrust towards the Chinese, which again activates scheming and counter-scenarios that creates alternative misinterpretations and found uncertainty on intentions. Considering that Chinese are willing to share information they possess, developing alternatives and invent options is possible.

It is good for the atmosphere if the parties can avoid a process with counterproposals back and forth, and focusing on dynamism in the negotiation process (Rognes, 2005). The atmosphere in the negotiation affects how the parties regard each other, and by creating a cooperative atmosphere a creative and trust-based process will more easily be established. If trust and

cooperativeness are established, the counter-scenario scheme is more likely not to occur and then more energy may be concentrated in a creativity process where the parties are exploring different packages and opportunities in reaching an agreement. Cooperation can help agency problems and with trusting relations it may be easier to explore more alternatives and tolerate more risk in the agreements. Establishing good negotiation environment foster trust and Westerners can to some extent avoid pitfalls of causing their counterpart to lose face, establish a good ground for discussing sensitive topic, avoiding Chinese negotiators to use war stratagems and understand the non-task communication and information seeking by the Chinese. Cooperation seems to reduce tension and thus make it easier to establish trust, for the Chinese. On the other hand, competitive tactics may foster a negative atmosphere and negative emotions, and thus lead to stagnation and misinterpretation and less tolerance from the Chinese. Trustworthiness influences both American and Chinese negotiators expectations about cooperativeness. A little tension is good for the energy level, though too much is destroying.

Flexibility when generating options and packages allows the negotiators to reconcile their interests in an integrative as opposed to a distributive manner. Cooperation and flexibility are important factors in the integrative approach. According to Kumar's and Worm's (2003) the vast majority of the research Chinese respondent did not perceive European to be particularly flexible. "Westerners are very focused on rules as opposed to outcomes". Once they have developed their position there are little room left for the Chinese to manoeuvre". On the other hand, the northern Europeans also did not consider the Chinese to be flexible for the reason that the Chinese have to negotiate under a set of organizational constraints stemming from the bureaucracy. One reason is that flexibility occurs under different stages in the negotiation process. For the Chinese flexibility comes into play once a relationship has been established. By contrast for the northern Europeans there is flexibility till the time that a contract has been signed but subsequent to that it vanishes. The different times at which flexibility emerges in China and in northern European countries is reflective of the fact that while northern European managerial style is very much process driven, the Chinese managerial style is situational driven. Asian behaviour is more often than not, governed by the logic of the situation. Binding contract may not be the best way to gain an optimal outcome, because binding contracts can have a negative impact if poorly specified. It is common for Chinese to focus on relation and trust-building, and thus enhance flexible long-term contracts and this should be considered in the negotiation. When operating on a long-term basis with trusting

relation, the parts can give and receive value at different stages in the relation and negotiation process. As embedded in Chinese culture, guanxi favour will be remembered and reimbursed.

Considering communication, Westerners are more direct in their communication style while Chinese, which are from a high-context culture, are more indirect and can be perceived as slow communicators. An interpreter is important in the communication process because of language difficulties but also in relation to interpretations of non-verbal communication. Though looking at trust building, the view and conveys on sharing confidential information through an interpreter is difficult. The view on the interpreter was different between the Europeans and the Chinese. The first thought they were shaping the quality of relationship, while the latter did not (Movious et. al. 2006). Communicating trust may be difficult, but is important. If one part is able to communicate trustworthy intentions to the other part, the willingness to trust increase. Though, expectation and pre-negotiation will influence the way the parties perceive trust to each other. Goals and interest may under trusting negotiation environment trigger mutual beneficial agreements as the perception of each other's intention may be more correctively interpreted from the two parties.

8.3 Distribute value

Trust is important for creating a cooperative atmosphere that especially for Chinese is important when negotiating over sensitive issues. When distributing value it is important for the two parts to further enhance flexibility as mentioned in the previous section. In this phase tension is likely to increase and distrust so efficient communication is crucial. In addition, having a distributive reputation may be interruptive in the information exchange process and contribute to slow progress in the negotiation. Interpersonal attraction is important to both Westerners and Chinese and tension is bad for developing trust in negotiation between the two parts so facilitating and keeping a cooperative atmosphere is crucial for the potential outcome.

The relational aspect of the negotiation is of great importance for the Chinese and they focus on maintaining a personal long-term relation compared to Americans who may be more objective and competitive in their view. This may influence the process of distributing value whereas the Chinese have a collectivistic way of thinking and distributing value and Westerners have individualistic approach. Differences in behaviour and the interpretation of

conflict management may impede the process of value creation and dealing with distributive issues. Standards and criteria should be discussed between Western and Chinese counterparts as it may prevent tension and contribute in getting closer to agreement during rough parts in the negotiation. By emphasizing standards and criteria it may be easier to precede constructive discussions in spite of dealing with culture differences.

Searching for self-enforcing agreement may be achieved if mutual gains and trusting relation is developed, because both parts have contributed to the agreement. Chinese have a holistic way of thinking in contrary to Westerners who tend to think in a sequential way, which can influence the tension level as a result of stagnation in negotiation progress. A holistic way of thinking is a good approach in integrative negotiations, whereas exploring interests, inventing opportunities and creating value is done by not focusing on an issue by issue basis. If integrative methods succeed, then the distribution of value may be less painful. This implies that with trusting relations in the value creating process negotiators have better been able to cooperate and “increase the pie”, which further may ease the value distribution between the counterparts.

8.4 Follow-through

Considering contracts in the final stage of the negotiation process, Chinese do not have comprehensive contracts and neither a proper institutional framework that support a written contract, in contrary to Western countries. Moreover, the differences on how Westerners and Chinese perceive contracts may further emphasize trusting relationship for enforcement of the contract. The business environment in China is quite different from what Westerners are familiar with. In addition to cultural differences and communication difficulties it is important to establish a trusting relationship where both sides can discuss and solve future options.

In a study of in-group lending and trade relations in China's early business groups Keister (2001) noted “Not only did firms adapt to trade with seemingly stable partners, but they were also willing to forgo less expensive alternatives to establish or maintain these relations”. Park and Lou (2001) “Repeated interactions in a guanxi network lead to a socially embedded relationship that demands continual commitment from all parties” (Movius et. al, 2003). This implies that the guanxi network also function as a reinforcement and monitoring of contracts between different parts.

Holding a good reputation and maintaining good relations are important for the endurance of the cooperations and through the contract time. Reputation and trust is running during the period and the guanxi network will facilitate information about the parts. The guanxi network is spreading social information, which will be reflected through mianzi. How interaction has been maintained and how trust and distrust is between the parties will influence future interaction, outcome and perception on reputation.

Reaching an agreement or not has no impact on expectations about trustworthiness or future cooperativeness of cooperativeness of negotiation counterparts. Thus attractiveness is similar to trust for Chinese and attractive interpersonal skills are important for getting to an agreement. Similar is that trust is important for Westerners getting to an agreement. Though, the main differences may be that Chinese are more focused on relational aspects and the context of getting to the agreement, whereas Westerners are more focused on facts and objective measures and the result of the agreement.

8.5 Discussion

Elaboration is given on how trust can contribute to improve the negotiation process in the different stages of the mutual gains approach. The purpose was to review different factors that influence the negotiation progress. The chapter suggests that attention should be made to trust in direct and indirect contribution to efficiency in communication and mutual understanding. Applying mutual gains approach to negotiations, trust is an important element to lower barriers in communication between Westerners and Chinese because it can facilitate better information processing. Both Chinese and Westerners are dependent on trust in relation to facilitate a cooperative negotiation climate. A cooperative climate is important to explore interests and avoid reputation scheming and biased assumptions of counterpart's intentions.

Trust is important for reaching an agreement and the concept of trust is similar to Westerners and Chinese. Nevertheless, the focus is different as Chinese focus more on relation-based trust whereas Westerners are more focused on fact and information based trust. Being aware of the distinction is beneficial in seeking a common understanding during the negotiation process. Thus, establishing procedures is crucial to the negotiation process, because it can

reduce the barriers of conflicting negotiation scripts and differences in comprehending situations occurring during the negotiations process.

The implications of this chapter is that trust occur in different situations and that trust is the foundation for achieving mutual understanding and efficiency in the communication process, which is of great importance for creating mutual gains and achieving a good agreement.

9. CONCLUSION

How can trust contribute to improve the negotiation process between Western and Chinese counterparts when applying the mutual gains approach?

In the thesis trust has been discussed in respect to the mutual gains approach, which theoretical framework made the foundation throughout the thesis. Discussions considering the Chinese business environment, reputation, tension and finally an integration of all the chapters have been given. The thesis has aimed to illustrate different aspects of how trust can improve the negotiation process in the context of mutual gains approach.

Differences in negotiation scripts resulting from differences in culture and business practises cause tension and difficulties in negotiations. The thesis implies that trust contribute to improve the negotiation process between Westerners and Chinese when approaching mutual gains. In this perspective trust lays foundation for cooperation and tolerance between the parties, and by achieving a cooperative atmosphere tension can be reduced and foster constructive communication between the parties. Furthermore it is of great importance to consider relation-based trust, which pervades Chinese in the negotiation process.

When seeking to discuss how trust can improve negotiation processes between Westerners and Chinese, stereotyping of culture has been made to better elucidate differences. It has to be mentioned that negotiations are more intricate and other factors can improve the negotiation process. The objective has nevertheless been to cover how trust may be beneficial when seeking mutual gains.

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