CHAPTER 1 - INTRODUCTION

1.1 BACKGROUND

China has experienced tremendous growth after the Open Door Policy was announced in October 1979. The joint venture law that was established simultaneously permitted foreign investment, and the nature and key characteristic of equity joint ventures that should encourage direct foreign investment (DFI) were also preliminarily defined. However, the investment environment for foreign businesses was not well structured. For example, the high cost of doing business in China due to an outdated communication and transport system, serious delivery problems for domestic inputs, labour practices and lack of markets for land, etc., were cited in surveys (Pomfret 1991). Thus, despite the publicity given to the opening up of the huge potential market, the amount of foreign investment grew very slowly during the 1980s. The actual DFI for the period 1979 to 1982 only totalled US$ 6.73 billion, a relatively small amount by international standards (Cook 1996). The investment environment for joint ventures was subsequently improved. For instance, the formation of 14 coastal cities into Special Economic Zone (SEZ) in 1984 greatly improved the legal and investment environment of DFI in these cities. The promulgation of the Law on Co-operative Ventures in April 1988 also confirmed the determination of the Chinese Government to provide a favourable investment environment to foreign investors; foreign firms regained their investment interest and started negotiating for joint ventures in this market (Pomfret 1991). As a result, DFI increased to a huge US$ 37.87 billion in 1991 of which 72.11% were joint ventures (Cook 1996).

The rapid increase of DFI has elevated China into the world’s largest destination country for foreign investment in 1993 (Anonymous author, The Economic Intelligence Units, 1994). The accumulative registered capital investment for DFI has totalled US $ 1,241 billions in 1995 (Anonymous author, Hong Kong Economic Times 18/5/1996). All these indicators show that China became one of the world most important markets to attracting DFI, and joint venture is an important entry mode for foreign firms to penetrate the Chinese market.

Blackman (1997) estimated that 450,000 Westerners were negotiating business in China in 1997. Nevertheless, business negotiation for joint ventures has been described as an extremely difficult exercise. Some scholars attribute the difficulty to the different style of negotiation between China and the West (Pye 1982 1986, Stewart & Keown 1989, Wilhelm 1994). Some commentators describe the difficulties in terms of a different culture (Blackman 1997, Pye 1982, 1986, Leung 1997). And some
observers depict the difficulties in terms of different management styles (Baird et al 1990, Yan and Gary 1994). It is apparent that these scholars only emphasise different aspects without taking a comprehensive approach to Sino-foreign joint venture negotiation. Child (1991) openly advocated that foreign negotiators should formulate a comprehensive approach to joint venture negotiation in China. This study is a response to such a call from international scholars to establish a comprehensive Sino-foreign joint venture negotiation model.

1.1.1 Chapter objectives

The objectives of this chapter are as follows:
1. It introduces the readers to differences of Western and Chinese joint venture negotiation;
2. It defines the main research problem of this study;
3. It determines the scope of this study;
4. It gives a conceptual framework to Sino-foreign negotiation;
5. It briefly identifies the methodology of this study; and
6. It specifies the limitation of this research.

1.2 DIFFERENCES OF WESTERN AND CHINESE NEGOTIATION

Section 1.1 gave an introduction to the importance of the Chinese market from an international perspective and recognised that joint venture has been a major mode of market entrance to this market. It also indicated the need of doing research in this international negotiation area. This section briefly introduces the research on negotiation to date, and it identifies for the reader the research gaps.

1.2.1 Chinese negotiation

As mentioned previously, joint venture is the major entry mode for foreign firms to penetrate the Chinese market. However, studies have consistently reported that foreign companies commonly experience anxiety and discouragement while conducting business with their Chinese counterparts (Au and Enderwick 1994, Linsay and Demsey 1983). Many frontline practitioners have complained that creating a joint venture in China is more complex and time consuming than is necessary (Stewart and Keown 1989). These unhappy experiences stem from the environmental and organisational pressure exerted on both Chinese and foreign negotiators, the foreign negotiators’ lack of understanding in the Chinese negotiation process, and cultural difference between the Chinese and foreign negotiators that will be explained below.
Environmental and organisational influences

China's history delivers strong evidence of the importance of Chinese culture and "ideology" which can be manipulated by powerful political leaders to gain power over China. They have modelled China's political development according to this culture and "ideology" (Ogden 1995). The political development has created a unique bureaucratic and legal system that is operating in conjunction with the strategic economic, social and technological environment as described by Hunger and Wheelen (1993). Wagner (1990) proves that these environmental factors have substantial influence on Sino-foreign joint venture negotiations because the negotiators of both sides need to incorporate the organisational constraints in their joint venture negotiation while monitoring these environmental factors.

Process orientation

The strategic environmental context in China generates a set of process-oriented bureaucratic procedures (Brahm 1995, Brahm and Li 1996). For example, the Chinese government is involved in the approval of the following documents that emerge from the process of negotiation:

- Signing of letter of intent between the two parties concerned, usually before the joint venture negotiation starts;
- Listing of the joint venture item on the Chinese government central planning agenda;
- Conducting the flexibility study by both parties that must be subsequently approved by the Chinese government;
- Signing of contract(s) i.e. business contract, technology transfer contract, etc after both parties agree on the terms and conditions of the joint venture which must be approved by the Chinese government;
- Signing of the Article of Association that must be approved by the Chinese government;
- Obtaining business license with approval number from the Chinese Government;
- Registering the business entity concerned with the taxation department and Customs; and
- Establishing of a bank account with one of the banks approved by the Chinese Government.

These documents emerge at different stages of the joint venture negotiation process. Also, the approvals of these documents are guided by the Chinese central planning activities. These bureaucratic procedures are complicated and can cause long delay in negotiation time frame. The longest joint venture negotiation cited is seven years (Yan 1995).

Chinese negotiation strategies

The PRC negotiators are perceived as extremely "tough", taking a longer time to reply to foreign trade proposals than do the Europeans and negotiating settlements rather than employing arbitration provided
in their contracts (Brunner and Taoka 1977). They are likely to make sudden demands and changes in order to put the foreign party at a disadvantage, and negotiating teams tend to be large and frequently change in composition, often with no particular individual appearing to be in charge (Stewart and Keown 1989). They also use a variety of strategies to manipulate the other side in doing business, and often push relentlessly for further concessions after an agreement has been reached (Chen 1993). On the contrary, foreign negotiators who attempt to negotiate according to a tight schedule create situations which are intolerant to the Chinese (Mente 1992).

Cultural Aspect of Chinese joint venture negotiation

Chinese negotiation is heavily influenced by the Chinese culture, and has an emphasis on relationship (Buttery and Leung 1998). Connection or guanxi has to be cultivated before smooth business transactions can take place (Brunner et al 1989, Leung & Yeung 1995, Leung et al 1996); it can also be used as an institutional support in inter-firm transactions (Xin and Pearce 1996). The importance of this dimension has been repeatedly confirmed in previous research (Lee and Lo 1988, Davies et al 1995, Leung et al 1995, Leung et al 1996).

"Face", another important cultural element, is often used to establish mutual respect of relationship between partners (Brunner and Wang 1988, Hwang 1982). Brunner and Koh (1988) discuss other cultural aspects of Chinese joint venture negotiation i.e. reciprocity, trust and "renqing" and conclude these cultural elements are important in the Chinese negotiation process. However, the importance of these cultural elements has not been empirically tested.

Buttery and Leung (1998), based on Hofstede’s (1991) work, found that Sino-foreign cultural differences occur in terms of individualism, power distance and long-term orientation. China tends to be a group-based economy and has a clearer hierarchical structure in regard to the decision process, whereas the Western counterparts are more individualistic and loosely organised. Chinese negotiators are patient but persistent in their pursuits and willing to re-negotiate a contract to achieve their long-term objective. These characteristics pose a challenge to Western negotiators, as they need to understand Chinese group dynamics, their hierarchical structures and their long-term orientation, all of which provide insight into the Chinese motives in business negotiation. Buttery and Leung (1998) argue that the Chinese use a relationship approach in the joint venture negotiation with the foreign counterparts.

In summary, the author of this thesis argues that Sino-foreign joint venture negotiation is a holistic process that is heavily influenced by Chinese cultures and the Chinese bureaucratic process. Further, this holistic negotiation process is influenced by the organisational constraints and the Chinese strategic environment.
1.2.2 Western negotiation

Researchers based in the West discuss negotiation from three perspectives i.e. the marketing perspective, the sociological and psychological perspective and the economic perspective. The marketing perspective (Maddux 1988, Fisher and Ury 1986) generalises negotiators as mechanisms in which negotiators' behaviours can be isolated to carry out negotiation. The sociological and psychological perspective (Adler et al 1992, Karrass 1970, Anderson and Narus 1990) mainly investigate negotiation from an exchange scenario between two parties and claim that the psychology of negotiators influence the outcome of negotiation. Their psychology is, in turn, influenced by their Problem Solving Attitudes (PSA). The economic perspective (Bolton 1991) employs the games and probability theories to depict the expected exchange scenario. In order to achieve the organisational objectives, negotiators use various strategies when they negotiate (Thomas and Kilmann 1974).

These writers provide considerable evidence of different aspect of negotiation within a Western setting. They perceive negotiation as a complex exchange (Bagozzi 1974) which is a system of mutual relationships among at least three parties. Each social actor is involved in at least one direct exchange, while the entire system is organised by an inter-connecting web of relationship. Other writers investigate negotiation in terms of strategies (Thomas 1977, Kirkbride et al 1991).

1.2.3 Sino-foreign joint venture negotiation

The existing literature, taking a Chinese perspective, mainly emphasises culture, the process, the strategic environmental aspect and the Chinese negotiators' behaviour aspects. These writers, however, have not given any clue on how foreign negotiators go through the negotiation process with their Chinese counterparts for negotiation result. On the contrary, literature originated from the West addresses negotiation from different perspectives, and strategies are not specifically concerned about joint venture negotiation in a Chinese context. As a result, researchers repeatedly call for an investigation in Sino-foreign negotiation in an institutional context (Child 1991).

This research, in the main, postulates a complete Sino-foreign joint venture negotiation model to bridge the gap of the above literatures by proposing a set of strategies which can be applied at different stages of the negotiation process in a Chinese context that also emphasises relationships. The research aims at combining the unique Chinese characteristic as mentioned, without the previously addressed limitations of the existing negotiation literature, and to generate a model to help foreign investors to negotiate for joint venture projects. This model will be field-tested for its validity in real life application.
1.3 THE MAIN RESEARCH PROBLEM

The preliminary discussion in the above section directs the readers to the complicated environment in Chinese joint venture negotiation. It also gave a brief idea on negotiation from a Western perspective. This section is used to determine the main research problem that will lead the researcher to the development of a Chinese joint venture negotiation model.

This research develops a conceptual Chinese joint venture negotiation model to help foreign firms negotiate for joint venture projects in China. Without this theoretical or conceptual framework, a “PhD study becomes a mindless... theoretical wasteland” (Adams and White 1994 p.566). The development of this conceptual framework should be guided by the main research question (Perry 1994). Six questions i.e. Who, What, Where, Why, When, and How should be addressed before the main research problem can be formulated (Perry 1994). The answers to these questions in relation to the main research problem of this study are discussed below:

**Who is involved?**

Negotiation is usually something that takes place between two individuals or groups of individuals. The negotiation exercise mainly involves a foreign firm, a Chinese firm (PRC) and the negotiation representatives of the two firms (Eiteman 1990).

**What do they do?**

The representatives of the two firms, within their organisational constraints (Yan and Gary 1994), attempt to negotiate for a joint venture in China. Naturally, these representatives are influenced by a set of Chinese environmental variables.

**Where?**

They negotiate for their joint ventures in China. Previous researches also indicate they normally carry out the joint venture negotiation in China (Leung and Yeung 1995, Yan and Gary 1994).

**Why?**

They "attempt to negotiate with the other party so as to arrive at the settlement of some matter...to deal with some matter or affair that requires ability for its successful handling.” (Frederick, 1991, p.791)
When?

The two parties perceive that an opportunity emerges within the Chinese environmental context for business developments.

How?

Both parties negotiate according to their organisational objectives that are largely pre-determined (MacDougal and Malek 1983, Maddux 1988, Fisher and Ury 1986). From the point of view of a foreign firm, these objectives may include business growth, market penetration, profit, establishing credibility and learning the Chinese business experience. From the point of view of a Chinese firm, these objectives may involve transfer of technology, business expansion and learning of management expertise (Yan and Gary 1994). Besides, they have to establish the joint venture according to the legal procedures and requirements in China. In addition, cultural dynamics must be carefully observed because it is the major source of disagreement between the two parties (Brunner and Taoka 1977, Brunner et al 1989, Pye 1982 and 1986, Hu 1944, Leung and Yeung 1995, Buttery and Leung 1998).

The above answers of the six questions help the author of this thesis formulate the main research question:

How do foreign and Chinese parties who come from different cultural backgrounds negotiate for a successful settlement in a joint venture under the organisational constraints and in the Chinese environmental context?

Essentially the author of this thesis argues that four important characteristics exist in a Sino-foreign joint venture negotiation:

- The Chinese environmental context,
- The organisational constraints of the two firms,
- The importance of Chinese culture, and
- The settlement of negotiation which requires skilful handling.

These four characteristics come into play when a foreign firm negotiates with a PRC firm for a joint venture project in China. Specifically, the differences in Chinese and Western culture imply that foreign and Chinese negotiators have different negotiation behaviours as mentioned in section 1.1 above. The combination of these characteristics in the Chinese joint venture negotiation phenomenon generates a causally complex environment. In saying that, the absence of any one of the essential characteristics means that the Chinese joint venture negotiation phenomenon does not occur (Ragin 1987). This causally complex environment implies that the deployment of any one of the negotiation perspectives
presented in section 1.1 above is not a sufficient condition to negotiate in China. Negotiation, based on these perspectives, is seen as a business deal and is largely divorced from other aspects of society and the negotiators' personal and social lives (Buttery and Leung 1998) which is simply not the case in China because culture and relationship are integral parts of Sino-foreign joint venture negotiation.

1.4 SCOPE OF RESEARCH

The main research problem was presented in section 1.2 above. This section is used to determine the scope of this research.

The scope determines the explicit and implicit boundaries of a study (Perry 1994). The scope is comprehensive and based on the following investigations:

*International environment of joint venture negotiation*

- Establishing the reasons of why foreign organisations attempt to negotiate for joint venture projects in China.

*Chinese strategic environment of negotiation*

- Examining the important implications of the Chinese strategic environmental context on joint venture negotiation. Hunger and Wheelen (1993) argue that there are four variables within a strategic environmental context i.e. economic, political/legal, cultural and technological variables. Foreign negotiators must have an understanding on these four variables when they negotiate for joint venture projects in a cross-cultural context. However, the Western negotiators' treatment of culture as an environmental variable is not appropriate in a Chinese context. Kublin (1995, p.16) provides an explanation to this misconception: "We Americans generally believe pre-negotiating socialising should be kept to a minimum and we should get right down to business. To do otherwise would be to waste everybody's time...Although we take business matters very seriously, our manner is distinctly informal." In saying that, Kublin (1995) actually argues that an understanding or appreciation on the cultural environment is not sufficient to help cross-cultural negotiation. Foreign negotiators must “practice” culture as a negotiating variable rather than as an environmental variable. Wagner (1990) advocates that negotiation is a cultural exchange in Sino-foreign joint venture negotiation. Xin and Pearce (1996) echo Wagner's cultural exchange concept by proposing "guanxi", a Chinese cultural element, as an institutional supportive element in Sino-foreign joint venture negotiation. In saying that, culture constitutes a negotiation supporting pillar rather than just acting as an environmental variable. Without this supporting pillar, both Western and Chinese negotiators cannot perform any exchange process.
Organisational constraints

- Exploring organisational constraints faced by Chinese and Western organisations.

Negotiation process/ theories

- Investigating negotiation from the Western marketing, social/psychological and economic perspective and relating relevant issues related to negotiation strategies which can be applied to Sino-foreign joint venture negotiation;

- Reviewing existing Chinese negotiation literature and summarising the negotiation process and key implications to Sino-foreign joint venture negotiation;

Culture

- Revealing the concepts of culture from a Western perspective;

- Exploring the unique Chinese cultural variables and explaining the importance of these unique Chinese cultural variables to Sino-foreign joint venture negotiation;

Sino-foreign joint venture negotiation model

- Proposing a comprehensive Sino-foreign joint venture negotiation model to incorporate the analyses of the above;

Testing of this model

- Testing this Chinese joint venture negotiation model in a Sino-Chinese environment; and

Managerial recommendation

- Summarising managerial implications of this comprehensive Sino-foreign joint venture negotiation model and recommending negotiation to the foreign negotiators.

As mentioned in the introduction section, this study is based on previous studies to develop a joint venture negotiation model with a particular focus on Sino-foreign joint venture. It aims at helping international negotiators to understand the Chinese negotiation characteristic and to improve their strategies in Sino-foreign joint venture negotiation at different stages of the negotiation process.
1.5 CONCEPTUAL FRAMEWORK

Section 1.3 established the scope of this study. This section develops a framework that integrates various theories and research and proposes a comprehensive Sino-foreign joint venture negotiation model. The conceptual framework which is developed from the scope in the above is presented in figure 1.1 below. The author of this thesis integrates the following literatures and presents them in Chapter 2 of this thesis.

Figure 1.1 Conceptual Framework of a Sino-foreign joint venture negotiation model
The conceptualisation of this Sino-foreign joint venture negotiation is based on the study of Western and Chinese similarities and differences of four constructs i.e. the environment context, the organisational constraints, the negotiation process and theories and culture. The integration of the Western and Chinese literature on these four constructs determines a Sino-foreign joint venture negotiation model.
• The Western and Chinese strategic environment context,
• The Western and Chinese organisation constraints,
• The Western and Chinese negotiation process/theories, and
• The Western and Chinese negotiation culture.

The above integration results in a Sino-foreign joint venture conceptual model at the end of chapter 2. The model will be field-tested and its methodology will be presented in chapter 3. The recommendations emerge from the empirical work of this study and will improve foreign negotiators’ understanding on Chinese joint venture negotiation process and skills. They also contribute to the knowledge of negotiation in international marketing.

1.6 JUSTIFICATION OF THIS RESEARCH

As mentioned in section 1.1, various writers have contributed to the understanding of different aspects of Sino-foreign joint venture negotiation. However, a comprehensive Sino-foreign joint venture negotiation model has not been proposed in the marketing literature to date in response to Child’s (1991) request for such a model to give foreign negotiators a systematic approach to joint venture negotiation in a Chinese environment. This study is a response to such a request and proposes a Sino-foreign joint venture negotiation model. It also formulates negotiation strategies which foreign negotiators can use in their joint venture negotiation in China.

The present Sino-foreign negotiation literature is widely dispersed and therefore a single piece of work is required to consolidate all these literature to produce a Sino-foreign joint venture negotiation model so that foreign negotiators can use it when they negotiate in China. Furthermore, negotiation strategies emerge at different stages of this model can be field-tested which can be used in real life situation. This model also helps improve international negotiators’ understanding on joint venture negotiation in China. This research, therefore, is a response to the need to add depth to the international marketing area.

This research, besides the guanxi concept, also investigates other relational concepts i.e. “face”, "renqing”, “trust”, “reciprocity” and “trust” which are vital but are relatively neglected in the literature. Buttery and Leung (1998) believe that these concepts are related to the long-term orientation concept proposed by Hofstede (1991) that needs empirical proof. Their importance in the Sino-foreign joint venture negotiation must be fully acknowledged in order to be successful in negotiating a joint venture with the Chinese. This research aims to add understanding to these unique Chinese concepts by testing this relationship approach.
Chapter one - Introduction

The Sino-foreign joint venture negotiation model consists of different stages that have implications for strategies and are vital to the success of joint venture negotiation. By understanding these strategies, foreign negotiators establish mutual understanding of the joint venture requirements and achieve negotiation result with their Chinese counterparts. These strategies are also the key for foreign negotiators to proceed from one stage to the next. The inclusion of these strategies at different stages to the literature is needed to help marketing executives to go through the negotiation process and to add competitive advantages of mutual understanding with the Chinese when they approach the huge Chinese market.

1.7 METHODOLOGY

The details of methodology can be found in chapter 3 of this thesis. This section serves as an introduction to that methodology chapter.

An intensive literature review on Western and Chinese literature was conducted as specified in the classification model in figure 2.1 in chapter 2 of this thesis. Based on this intensive literature review, a tentative model of joint venture negotiation model was developed in figures 2.27 and 2.28 of chapter 2. The comprehensiveness of this Chinese joint venture negotiation model was tested by 5 in-depth interviews with experienced foreign negotiators in Hong Kong. The refined comprehensive Chinese joint venture negotiation model was placed in figures 3.4 and 3.5 of chapter 3.

As mentioned in section 1.2 above, the causally complex environment in Sino-foreign joint venture negotiation means that the absence of any one of the essential characteristics means that this phenomenon does not occur (Ragin 1987). For example, it is impossible for a Western firm to negotiate a joint venture project with a Chinese firm without considering the Chinese economic environment that is centrally planned. In saying that, an investigation of a social phenomenon cannot be isolated from its environment. The constructs describing that phenomenon cannot be singled out and tested. Also, the Chinese joint venture process described above implies this study is longitudinal in nature. The causally complex environment together with this longitudinal aspect of Chinese joint venture negotiation means that the preferred method is of qualitative in nature. Thus, instead of using questionnaire survey instrument as the main research tool, this study used a research protocol that was developed through in-depth literature review. The protocol was pilot tested to confirm its suitability with Hong Kong Beijing Air Catering Ltd. Its selection is based on Yin’s (1989 1994) criteria i.e. convenience, easy access, and proximity. This firm is close to the researcher’s site and satisfies the proximity criterion. The general manager of this firm is a personal friend of the author. This firm was representative in a sense that it was among a set of pioneer firms to establish a joint venture project in the PRC in the early 1980s (Anonymous author, Asiaweek 1995). These three characteristics satisfy the convenience, easy access and proximity criteria. The confirmed research protocol was used to interview
six firms in literal replications (to predict similar results) for the research questions under study. One case is used in theoretical replication (to produce contrasting results but for predictable reasons). The total number of seven cases exceeds the minimum requirements of case study as specified by Yin (1994). If all the cases turn out as predicted, these seven cases would have provided compelling support for the phenomenon (Sino-foreign joint venture negotiation) under study (Yin 1994). All case studies are contained in Appendix E of this thesis as part of documentary database. The case analyses of these cases are presented in Chapter 4 of this thesis to give readers essential ideas on how foreign firms negotiate joint venture projects with their counterparts in China, and the applicability of the comprehensive Chinese joint venture negotiation model.

The analyses of the database in Chapter 5 consists of:

- Cross case/site analyses that will be conducted on the 6 joint venture negotiation cases (literal replications) to generalise the applicability of the comprehensive joint venture negotiation model.
- These six cases will be compared with one case to show contrasting result but for predictable reasons (theoretical replication);
- Pattern matching and explanation will be carried out to ensure the internal validity of the model;
- The evidence produced by these cases will be compared with the literature contained in this thesis to give insightful comments.

1.8 OUTLINE OF THIS THESIS

Based on the above research process, each chapter is briefly summarised. Chapter 2 is the literature review. It consists of the Western paradigm that is based on the concept of exchange, and the Chinese paradigm that is based on relationship. The Western paradigm identifies negotiation from the Western perspective, and the Chinese paradigm will do the same. A set of research questions related to the research problem also emerges during this intellectual journey of literature review. Similarities and differences of the two paradigms will also be specified, so as to justify the need of a comprehensive Sino-foreign joint venture negotiation model to address the complex tasks of a foreign negotiator. As such, a holistic conceptualisation on Sino-foreign joint venture negotiation is proposed which generates an analytical model of this Sino-foreign joint venture negotiation model.

Chapter 3 gives details to the method employed for this thesis. It includes the rationale of selecting the case study method as the main methodology and survey as a supplementary methodology for this study. Special emphasis is given to the description of quality assurance, model comprehensiveness assurance, field research process and limitation of the study. The comprehensiveness of the research questions and the Sino-foreign joint venture negotiation model will also be addressed.
Chapter 4 is to summarise all the individual cases and evaluate their level of conformity with the comprehensive model in chapter 3. The individual case reports are contained in appendix E as part of the documentary database and the presentation format of appendix E will be described in next section. Chapter 5 is to analyse the cases as mentioned in the above methodology section. They will be triangulated to derive insightful conclusion and comments. Chapter 6 is to give recommendation to international negotiators to improve their understanding on Chinese joint venture negotiation.

Because of chapters 4 contains the case study summary and its nature is to support the cross-case analysis in chapter 5, it has a 'standalone' nature from the rest of the thesis. As such, the author of this thesis would like to contain the references of this chapter as endnotes so as to give readers quicker and more convenient references. All references of the other chapters will be presented in the reference section at the end of the thesis. Again, these arrangements are consistent with the PhD requirements of University of Western Australia (Ellis 1995).

The chapter planning of this study is depicted in figure 1.2 below.
1.9 REFERENCES

All the references are contained in the reference section at the end of the thesis in Harvard citation system. Because all cases are standalone cases that must be supported by their own references (Yin 1993 and 1994), all references in the within-case/site analyses are presented as footnotes and endnotes. This referencing format is consistent with that of the University of Western Australia (Ellis 1995).

In summary, the references for chapter one, two, three, five and six will be contained at the end of the thesis. The references of chapter four (within-case/site analyses) will be put as footnotes or endnotes at the end of that chapter.
1.10 GLOSSARY OF SPECIAL TERMS

To provide the readers with clear concepts on all Chinese joint venture negotiation aspects, the provision of definitions of special terms is important. However, the number of special terms used in this thesis is large in number, and therefore it is more appropriate to put them in appendix A- Glossary of Special Terms. Readers should refer to these terms in appendix A when they need clarifications.

1.11 RESEARCH LIMITATION

Hong Kong is an ideal place for this research because of its strategic importance in attracting Direct Foreign Investment (DFI) for the Chinese market. Also, the Basic Law of the Hong Kong Special Administrative Region (HKSAR) specifies that all investment conditions remain unchanged for 50 years after Hong Kong returned to China on 1st July 1997. Therefore, Hong Kong is the most appropriate place for conducting this research.

According to a report produced by the China Department of Foreign Affairs, Hong Kong was the largest foreign investor in accumulative DFI in 1995 (figure 1.3):

Figure 1.3 Accumulative foreign investment in China, 1995 (US $ Billion)

<table>
<thead>
<tr>
<th>Countries</th>
<th>Pledged capitals</th>
<th>Actual capitals</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>2,337</td>
<td>786</td>
<td>63.33</td>
</tr>
<tr>
<td>Taiwan</td>
<td>293</td>
<td>115</td>
<td>9.27</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>282</td>
<td>108</td>
<td>8.70</td>
</tr>
<tr>
<td>Japan</td>
<td>212</td>
<td>105</td>
<td>8.46</td>
</tr>
<tr>
<td>Singapore</td>
<td>172</td>
<td>39</td>
<td>3.14</td>
</tr>
<tr>
<td>South Korea</td>
<td>67</td>
<td>22</td>
<td>1.77</td>
</tr>
<tr>
<td>U.K.</td>
<td>92</td>
<td>22</td>
<td>1.77</td>
</tr>
<tr>
<td>Macau</td>
<td>77</td>
<td>19</td>
<td>1.53</td>
</tr>
<tr>
<td>Germany</td>
<td>44</td>
<td>11</td>
<td>0.88</td>
</tr>
<tr>
<td>France</td>
<td>18</td>
<td>10</td>
<td>0.81</td>
</tr>
<tr>
<td>Other</td>
<td>5</td>
<td>4</td>
<td>0.34</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,599</strong></td>
<td><strong>1,241</strong></td>
<td><strong>100.00</strong></td>
</tr>
</tbody>
</table>

Source: Department of Foreign Affairs, China quoted in "Sino-U.S. Trade Wars," Hong Kong Economic Times 18/3/1996, B1

The time and resource limitations also confined the author to purely investigate Sino-foreign joint venture negotiation from the foreign negotiators' perspective rather than Chinese negotiators' prospective
because of the complicated application procedures of research in China. For example, the approval for the research permit in China takes about 6 month (Yau 1994).

No restriction was imposed on the firm samples utilised in this research based on country of origin and industry typology, because of the author's intention that this thesis will generalise the research findings to other industries that negotiate joint venture projects with their Chinese counterparts.

As mentioned in the methodology section, this research is of qualitative in nature and case study was adopted as the methodology. Because of limitation in time and resources, the number of firms in the case study method was limited to six. Six firms were selected for literal replication for theoretical replication and one firm will be selected for theoretical replication. Yin (1993) mentions that a sample of six to ten cases are sufficient to give compelling support for a phenomenon. The sample size of this study exceeds the minimum the sample requirement of Yin (1993).

1.12 CHAPTER CONCLUSION

This chapter has fulfilled its objectives by introducing the readers to the complex environment in Sino-foreign joint venture negotiation. It specifies the research problem and the scope of research. A conceptual framework is presented and the methodology is also briefly described. Chapter outlines, special terms presentation and limitations enable the readers to have quick preview of the thesis structure, meanings of special terms and the boundary of this research.

The chapter is an important chapter because it specifically found that Sino-foreign joint venture negotiation starts long before the face-to-face negotiation process between the foreign and Chinese negotiators. The negotiation process actually starts from a firm's appreciation of the international environment. Once this firm identifies China as a potential country candidate, this firm will evaluate the Chinese market according to the following four variables:

- The strategic environmental context of the Chinese market;
- The organisational context within the Chinese market;
- The joint venture negotiation process with the Chinese; and
- The negotiation culture within the Chinese environment.

This chapter has identified three major findings:

- The author of this thesis basically argues that the major source of differences in Sino-foreign joint venture negotiation originates from the different perceptions of these four variables by the Western and Chinese negotiators. At present, there is no negotiation literature that integrates all the four
variables and looks at Sino-foreign joint venture negotiation in a holistic manner. In fact, Sino-foreign joint venture negotiation is an internationalisation process; the above four variables must be studied and integrated to generate a Sino-foreign joint venture model;

- Sino-foreign joint venture negotiation is process oriented that is heavily influenced by the Chinese bureaucratic process as explained in section 1.2.1. The complete Sino-foreign joint venture negotiation process will be investigated in chapters 4 and 5.
- Sino-foreign joint venture negotiation is heavily influenced by the Chinese cultural aspect as explained in section 1.2.1. These cultural aspects will be empirically tested in chapters 4 and 5.
- The case study method is the right methodology to carry out this research as explained in section 1.7.

The above findings have assisted the author of this thesis to decide upon:

- To carry out a comparative literature review on the above four variables to identify the differences between the Western transaction and the Chinese relationship negotiation paradigm which form the basis of generating a Sino-foreign joint venture negotiation model. This model, as stated in the previous paragraph, will integrate the Chinese bureaucratic process and its cultural aspect in chapter 2;
- To develop a full set of research question related to the research problem identified in section 1.3; and
- To justify the case study method is the absolutely right methodology to carry out this research in chapter 3.

This study is important to add to the extant literature because it adapts a holistic approach to Sino-foreign joint venture negotiation. It investigates Sino-foreign joint venture negotiation from the very beginning of a foreign firm’s internationalisation process to the Chinese market (its strategic environment) through the evaluation of organisational constraints to the Sino-foreign negotiation process and ending up with the evaluation of joint venture performance. Instead of investigating piecemeal aspects of joint venture negotiation, this study investigates the whole Sino-foreign joint venture negotiation process. It calls for an international firm’s emphasis on evaluating China's unique requirements of modernisation of its economy and of its organisations, whilst maintaining the integrity of a firm’s marketing strengths such as technology and management expertise. It also suggests strategies to foreign negotiators on how to deal with Chinese negotiators during the process of negotiation.

Another key contribution of this study that is significant to the extant literature is the discovery of the relationship between the Chinese legal procedures and the stages of the joint venture negotiation process. The discovery of this relationship suggests that foreign firm can take a systematic approach to joint venture negotiation process. In implementing this systematic approach, foreign negotiators must carefully monitor the development in the Chinese economy because the Chinese leaders amend legal
procedures and requirements of joint venture establishment according to the Chinese economic development.

Another important contribution in this thesis is to advocate a cultural aspect throughout the Sino-foreign joint venture negotiation process. This cultural aspect does not only work as an environmental variable; rather it is a negotiation-supporting element. Without the presence of this cultural element, the investigation on Sino-foreign joint venture negotiation is just a piece of wasteland. By investigating the impact of Chinese culture on Sino-foreign negotiation, the study suggests cultural strategies to foreign negotiators on how to develop good relationship with Chinese negotiators. Good relationships are an integral part of doing business in China (Pye 1982 and 1986, Lee and Lo 1989, Buttery and Leung 1998).

Another important contribution added to the extant literature is the development of a complete stage-wise Sino-foreign joint venture model. Strategies emerge at different stages in the negotiation process that foreign negotiators can follow when they negotiate with their Chinese counterparts.

The last important contribution added to the extant literature is the development of a relationship paradigm in Sino-foreign joint venture negotiation. Relationship is important at personal level between foreign and Chinese negotiators, but it is also important at other level such as country level. The study suggests that a foreign company needs to establish good relationships with the Chinese Government. For example, Bill Gates of Microsoft has changed his decision to establish the Asia research centre in China instead of India; this represents proof of the importance of building good relationship with China at country level before Microsoft can further develop its business in the Chinese market.

The potential contributions to the extant literature and the implications for management policies and practice of this study motivates the author of this thesis to conduct this research which will be formally presented in later chapters of this thesis.
CHAPTER 2  LITERATURE REVIEW

2.1 INTRODUCTION

Chapter 1 indicated that Sino-foreign joint venture negotiation is actually a firm’s internationalisation process that starts long before the actual face-to-face negotiation begins. It commences from a firm’s appreciation of the international environment and identifies China as a potential market and shows that its joint venture negotiation with its Chinese counterparts is affected by four variables, i.e. the ‘strategic environment’ context, the ‘organisational’ context, the ‘joint venture negotiation process’ and the ‘negotiating culture’. In addition to these four variables, the author of this thesis also recognised that foreign negotiators use the transaction paradigm whereas their Chinese counterparts use the relationship paradigm in their Sino-foreign joint venture negotiation assignments which result in differences between Chinese and Western negotiation.

The above major findings affect the construction of this chapter. They motivate the author of this thesis to take a comparative literature review on the Western transaction and the Chinese relationship paradigm in accordance with the four variables to determine the major characteristics of the two paradigms. Compare and contrast these two paradigms form the basis of establishing a holistic conceptualisation and an analytical model of Sino-foreign joint venture negotiation process. This analytical model helps form a preliminary Sino-foreign joint venture negotiation model towards the end of chapter 2, and it will subsequently be validated in the methodology chapter 3. Also, research gaps will be identified.

2.1.1 Chapter objectives

The major objectives for this chapter are:

1. To establish a common Sino-foreign negotiation definition for this study;
2. To rigorously review the Western literature related to joint venture negotiation according to this common definition;
3. To critically investigate the Chinese literature related to joint venture negotiation according to this common definition;
4. To generate a list of research questions based on the above literature review that help answer the main research problem mentioned in chapter 1 section 1.2;

5. To compare and to contrast Western and Chinese joint venture negotiations;

6. To identify the research gaps by recognising the above differences;

7. To develop an analytical model that explains and assists the generation of Sino-foreign joint venture negotiation;

8. To generate a comprehensive Sino-foreign joint venture negotiation model; and

9. To elaborate the link between the research gaps and the rest of this study.

The accomplishment of the above objectives enables the author of this thesis to generate a Sino-foreign joint venture negotiation model with a set of research questions. The formulation of a list of research questions helps answer the main research problem stated in section 1.3 and confirms the validity of the Sino-foreign joint venture negotiation model.

2.2 THEORETICAL FOUNDATION

As mentioned in section 2.1.1 and section 1.7 of chapter 1, one of the main objectives is to establish a definition of Sino-foreign joint venture negotiation. This helps form a foundation of comparing and contrasting the Western and the Chinese joint venture negotiation paradigms. After the definition is established, a classification model will be developed to summarise the major studies entering the literature review of the Western and Chinese paradigms.

2.2.1 Sino-foreign joint venture negotiation definition

The first major task of studying the Sino-foreign joint venture negotiation is to establish a definition because it is not available at present. This definition allows the author of this thesis to establish a hierarchical sequence on the four variables, i.e. the strategic environmental context, organisational context, joint venture negotiation process and negotiating culture that the author of this thesis identified in section 1.2 of chapter 1. This is achieved by combining definitions of various authorities on negotiation-related topics.

Authorities use the terms “bargaining” and “negotiation” interchangeably in their negotiation studies that must be reconciled to achieve a common term to allow this study to progress (Rubin and Carter 1990, Graham 1985, Rubin and Brown 1975). Webster’s dictionary (Frederick 1991) defines:

**Bargaining**: "to negotiate over the terms of a purchase, agreement of contract... to establish an agreement between parties settling what each gives or receives in a transaction between them or what course of action or policy each party pursues in respect to the other" (Webster’s dictionary, p.131); and  
**Negotiating**: "to confer with another so as to arrive at the settlement or some matter...to deal
with some matter or affair that requires ability for its successful handling (Webster's dictionary, p.791).

The two terms are almost identical. Rubin and Brown (1975) propose that bargaining is referring to the interaction between individuals over some sale or purchase whereas negotiation is concerning with interaction involving complex social units (e.g. companies, unions, nations, etc.) and usually, multiple issues. In this sense, the term negotiation is used at macro level, whereas the term bargaining is employed at a micro level.

Graham (1985, p.81) gives a very narrow definition to negotiation: "a face to face decision making process between parties concerning a specific product." Rubin and Carter (1990) perceive that negotiation is the process of reviewing, planning, and analysing used by two parties to reach acceptable agreement or compromises. However, according to Kirkbride at al (1991), negotiation is a frequently invoked mechanism for the resolution of conflict between individuals or representatives of groups. Hughes and Contini (1973) conceptualise bargaining as a sequential learning process that bargainers adjust their expectation in realistic terms in a complex environment. These authors have used the terms "bargaining" or "negotiation" interchangeably. This is attributable to the fact that these researchers commenced their research problems without considering the full implication on the process of "negotiation" or "bargaining". This is consonant with the views taken in various authoritative treaties on collective bargaining (Cullen, 1965) and international negotiation (Ilke, 1964; Schelling, 1960).

The terms "bargaining" and "negotiation" have been used by authorities (Graham, 1985; Rubin and Carter 1990; Kirkbride at al 1991; Hughes and Contini 1973) to describe similar processes for different research that are not in the same nature. That is, the terms "bargaining" or "negotiation" basically has the same meaning. Therefore, the author of thesis will use the term "negotiation" throughout this thesis to avoid confusion. Although these authorities give slightly different definitions on "bargaining" or "negotiation", these definitions, nevertheless, have some common characteristics:

1. Negotiation is a settlement process for an exchange between two parties (two individuals or two groups of individuals);
2. The two parties go through the process of reviewing, planning and analysing for the resolution of conflict to reach acceptable agreement or compromise during face-to-face interactions;
3. They will adjust their expectation in realistic terms during resolution of conflict; and
4. They understand that one side does not have absolute power over the other side.
The above characteristics describe negotiation as an exchange between two parties that can be two firms or two individuals. These two firms or individuals, without absolute bargaining advantage, go through a process to adjust their expectations for a settlement that requires careful planning.

In a joint venture situation, the issues for settlement include the amount of investment, duration of the joint venture contract, board representation, labour allowance, technology transfer, and production capacity (Golden 1988). The clarification of these issues enables the two venturing firms to minimise uncertainty and enhances their chances to achieve organisational objectives (Baran et al 1996).

These characteristics are sufficient to describe negotiations at a micro level or domestic level because the complex issue of cross-cultural negotiation does not appear. However, they do not adequately describe the negotiation environment at a macro or international level when the complex issues of culture and international market environment come into the scenario. Kuijten (1995 p.9) concurs and points out the difficult tasks that an international negotiator need to accomplish in a wider environmental context:

"Differences in style and behaviour are only part of the challenge facing the foreign negotiators. Culture and personality alone do not explain how negotiators of different cultures will interact. Foreign negotiators are also affected by the broader environment in which the negotiations take place...Political, economic, regulatory, and legal forces will limit what they can and cannot do!"

If the above micro and macro aspects of joint venture negotiation are in a Sino-foreign environment, Sino-foreign joint venture joint venture negotiation is defined as:

"Sino-foreign joint venture negotiation is an exchange between negotiators of the Chinese and foreign firms who go through the process of reviewing, planning, and analysing for the resolution of disagreement to reach acceptable arrangement or compromise. Both sides adjust their expectations in realistic terms that are influenced by their negotiating cultures under different organisational and environmental contexts of these two firms."

The four variables identified in the above definition 1) environmental context 2) organisational context 3) negotiation process and 4) negotiating culture will form the basis of comparison between Western contractual exchange and Chinese relationship exchange paradigms of joint venture negotiation.

### 2.2.1 A classification model

The concepts regarding Western and Chinese joint venture negotiation paradigms according to the definition in section 2.2.1 are presented on a classification model in figure 2.1. This classification
model is a 'mind map' to show how concepts can be grouped or clustered together according to the schools of thought of themes, without necessarily considering relationships between groups (Perry 1994).

Figure 2.1 A Classification Model on Joint Venture Negotiation
Western Views and Chinese Views with different theories and concepts
** Chinese strategic context (cultural, political/legal, economic and technological contexts)
Figure 2.2  Summary of studies on Joint venture negotiation context
Classification according to Western and Chinese approach

<table>
<thead>
<tr>
<th>Negotiation Context</th>
<th>Western Contractual Exchange Approach</th>
<th>Source</th>
<th>Chinese Relationship Exchange Approach</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Technological context</td>
<td>Tsang (1993).</td>
</tr>
<tr>
<td></td>
<td>Economic Approach</td>
<td></td>
<td>Negotiation strategies</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cultural training</td>
<td>Harris and Moran (1993).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The author will follow the above concepts to review the Western and Chinese literature related to the four variables identified in the definition. These concepts become the sub-headings and the variables form the section headings in the literature review (Zuber-Skerritt and Knight 1986). For example, the concept of “business approach” is one of the sub-headings and the variable “negotiation process” becomes one of the section headings on the table of contents of chapter 2.

The author will review the Western literature and then proceed to the revision of the Chinese literature that will be in the following format:

- Each piece of literature is reviewed succinctly (Perry 1994) and a summary of findings and limitations is placed right after that piece of literature;
- A summary will be made for each of the four variables. For example, a summary will be produced based on the review of literatures on Western cultural dimensions, communication pattern and cultural training; and
- Overall summaries will be contrived for the Western and Chinese paradigms accordingly to enable comparison of the two paradigms; and

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• Linkages among the literatures related to the same concept will be established. For example, Buttery and Leung’s (1998) work is built on Hofstede’s (1980 and 1991) work under the Chinese negotiating culture sub-headings.

The above operating procedures enable the literature review to be presented in a consistent manner and also make comparison possible.

2.3 WESTERN VIEW OF CONTRACTUAL EXCHANGE PARADIGM

The definition in section 2.2.1 above clearly demonstrates that international joint venture negotiation involves negotiators’ careful management of four variables 1) environmental context 2) organisational context 3) negotiation process and 4) negotiating culture in an exchange process. This section is the first part of the literature review from a western exchange perspective.

As mentioned in chapter 1, joint venture negotiation is an exchange process between two firms. According to Bagozzi (1974), exchanges can be grouped into three main category i.e. restricted exchange, generalised exchange and complex exchange. The author will briefly review these three main categories and determine the category that joint venture negotiation belongs to.

A restricted exchange refers to two-party reciprocal relationship that is represented diagrammatically as A↔B, where "↔" signifies "gives to and receives from". A and B represent social actors such as consumers, retailers, salesmen, organisations, or collectivities (Ekeh 1974; Baker 1976). The restricted exchange displays two characteristics 1) there is a great deal of attempt to maintain equality between A and B; and 2) a quid pro quo (something of value in exchange for something of value) mentality /notion exists (Bagozzi, 1974). A generalised exchange denotes univocal, reciprocal relationships among at least three actors in the exchange situation. Univocal reciprocity occurs if the reciprocation involves at least three actors and if the actors do not benefit each other directly but only indirectly (Ekeh, 1974). Given three social actors, for instance, generalised exchange may be represented as A→B→C→A, where "→" signifies "gives to". In generalised exchange, the social actors form a system in which each actors gives to another but receives from someone other than to whom he gave (Bagozzi, 1974). For example, a non-profit organisation (B) requests a local consumer goods company (A) to donate or give a certain amount of confectioneries to them. The non-profit organisation (B) gives these confectioneries to the children (C) in a social function. As a result, the children (C) develop favourable attitudes towards these confectionery brands and start requesting their parents to buy these brands of confectioneries for their consumption. This type of exchange, A→B→C→A, is known as generalised exchange; while it fails to conform to the usual notions of quid pro quo, it certainly constitutes a marketing exchange of interest (Bagozzi, 1974). A complex
exchange refers to a system of mutual relationships between at least three parties. Each social actor is involved in at least one direct exchange, while the entire system is organised by an inter-connecting web of relationships (Bagrozi, 1974). The picture can be depicted by A<>B<>C. Industrial marketing of certain goods and services from a manufacturer to distributors and then to end users is a typical example of this complex exchange while relationship building and exchanges of goods and services happen at the same time.

In a cross-cultural joint venture situation, an international firm negotiates for an exchange with an organisation in the host country to gain access to opportunities such as international market access, lower labour cost, technological innovation etc. This joint venture will eventually exchange their end products with the final consumers according to the venture’s organisational objectives in that market (Kolter 1994). These organisational objectives are derived from a careful analysis of the market environment. This negotiation scenario depicts a complex exchange among the two partnering firms and the market under a perceived environmental context. The comprehension of this complex exchange process can be understood if this international firm consider a context which includes 1) the international market environmental context, 2) the organisation constraints of the firm, 3) the joint venture negotiation process, and 4) the cultural factors affecting this exchange process. The following sub-sections will address these four areas from a Western perspective of this exchange process.

2.3.1 Western view on environmental context

The typical approaches in evaluating the environmental context of a firm’s exchange process with a firm in another country are 1) the Opportunity/market/financial (OMF) approach, 2) the transaction cost (TCA) approach, and 3) the eclectic (EA) approach.

2.3.1.1 The OMF Approach

Joint venture is perceived as a strategic choice decision of a firm among other major entry methods i.e. exporting, licensing, wholly-owned subsidiary to enter into exchange processes with another firm in an international market (Root 1987, Baker 1991, Kotler 1994). The joint venture decision depends upon the firm’s commitment, risk perception, desired degree of control, and the perceived profit potential of that market. Kotler (1994) proposes an analytical framework (Opportunity/Market/financial or OMF Approach) to help an international firm consider exchange with another firm in an international market:

Opportunity analyses

A firm will enter a market if it perceives:
• An international market presents higher profit opportunities than the domestic market;
• The company needs a larger customer base to achieve economy of scale or bigger market share in global market; or
• The company wants to reduce its dependence on any one market.

The above characteristics indicate that a firm’s decision to enter a market is either marketing- or resource-oriented. Kotler (1994) argues that a firm will not enter into exchange with a firm in another market through negotiation if either one or more of the above characteristics do not exist in that market.

Market factor analyses

A firm must also consider the following factors (Kotler 1994):

• Whether their products are adaptive to consumer preference in that market;
• Whether the commercial regulations in that market are reasonable;
• Whether the operating costs are affordable;
• Whether they have the management experience in similar situation; and
• Whether that country has control on international exchange so that they can repatriate their profit back to their home country.

The evaluation on the above factors enables an international firm to estimate the risk and commitment in that market.

Financial factor analyses

The firm must also consider the financial implications such as potential sales, estimated cost and profit, and estimated rate of return on investment in a market before a final decision is made.

When this firm finishes the above three analyses and finds that the market is profitable, the firm will exchange with this market, and the joint venture is one of its strategic options.

The findings of OMF approach

The OMF approach has mainly contributed to the literature by:

• Explaining the internationalisation process of a firm that is economic and profit driven; and
• Exploring a universal approach to market identification.
The limitations of the OMF approach:

- Financial and economic aspects may not be the only reasons to explain why two firms enter into negotiations for a joint venture. Other reasons may include technology transfer and management experience transfer (Keegan 1995);
- The OMF approach is strong in describing the incentive of a firm's internationalisation process but weak in explaining the host country's motivation to negotiate for a joint venture; and
- This approach does not address the management of culture in international market (Keegan 1995).

2.3.1.2 Transaction Cost Approach (TCA)

The transaction cost approach offers another explanation of a firm entering into negotiation with another firm for an international joint venture (Baran et al 1996, Hennart 1988, 1991; Killing 1983; Kogut 1988, Baker 1976). The basic principle of TCA is that markets can fail to allocate factor services and goods efficiently due to natural and government-induced operation conditions such as market and regulatory barriers (Kogut 1988; Root 1987; Teece 1986). A firm will face a higher cost if it approaches an international market by itself such as establishing a wholly owned subsidiary in that market. By bringing their transactions under a common co-operative structure with another firm in that market, as in an international joint venture, the two partnering firms can improve their efficiency because the costs of transaction in terms of production, technology innovation, etc. are minimised.

The findings of the TCA approach:

The TCA approach contributes to the literature by giving:

- A good explanation on joint venture's role in improving operating efficiency from a transaction cost viewpoint. In fact, it is a more viable form of co-operation than other forms of entering into other countries (Gatignon and Anderson 1988); and
- A universal approach to joint venture establishment.

The limitations of the TCA approach:

- It is weak in describing the process of forming a joint venture (Hamel 1991). For example, minimisation of transaction cost may not be an important objective from a Chinese organisation's
viewpoint. Kwan (1998) noted that the Chinese organisations emphasise the importing of technologies from Western countries; and

- This approach, similar to OMF approach, lacks a cultural perspective.

### 2.3.1.3 The Eclectic Approach (EA)

The most recent approach on studying international joint venture is the Eclectic Approach (EA) (Baran et al. 1996). Each host country is associated with certain location specific advantages. The success of international investment is therefore attributable not only to the investment firm’s competitive advantages but also to the presence of the host country’s location-specific advantages such as natural resources, labour, energy, government policies, and so on. International joint ventures are the outcome of an optimal mix of investing firm’s competitive advantages and the location-specific advantages of the host country (Baran, et al. 1996).

Phatak et al. (1996) argue that an international firm must consider the host country’s specific factors besides its own specific advantages to establish the level of control in the joint venture. The four factors that they propose are:

1. **Country Risk** - it is the danger of being forced to deal with restrictions on remittances and operations. Phatak et al. (1996) propose that firm will seek more control if that country’s risk is low.

2. **Cultural Distance** - it is a measure that is based on the concept of cultural differences (Hofstede 1984). If a host country has a relatively higher score, that country will have a higher cultural difference with U.S. and therefore the international firm will seek a lower level of control in that country.

3. **Market Potential** – it is a measure of real growth in GDP of individual countries when a firm attempts to invest in those countries. Phatak et al. (1996) propose that the higher the GDP of a country, the more control a firm will seek in that joint venture because it is more attractive from a business viewpoint.

4. **Market Knowledge** – it is the prior experience e.g. investment experience of a firm in a country. Phatak et al. (1996) propose that when an international firm has more market knowledge in a country, it will seek a higher control in that joint venture.

An international firm should evaluate each factor and generate individual factor scores signifying the degree of control desired for a joint venture ranging from high to low (Phatak et al. 1996). The combination of these factor scores will give a composite score ranging from high to low. A composite high score means that that this international firm will seek higher level of control in that joint venture.
The findings of the EA approach:

- It explicitly includes country specific advantages and factors into the theoretical explanation of international joint venture establishment;
- It has a tremendous potential of application in the international business practice because it helps international firms match their competitive advantages with the selected host countries’ specific advantages and factors; and
- It provides a universal approach to joint venture establishment.

The limitations of the EA approach:

- The operationalisation of many country specific factors remains a daunting task, for example, researchers have yet to establish a common measurement on key variable such as country risk (Dunning 1980); and
- It operates at a macro level and investigates a country’s specific advantages and factors and neglects the needs of an individual country. For example, a country like China that has a different political economic system from the West will have different needs.

2.3.1.4 Summary of environment context evaluation

The Western approaches use universal marketing models on market identification. Each approach emphasises the employment of different criteria in analysing the country candidate. The OMF approach emphasises the analysis of opportunity, market factors and financial benefits associated with that country candidate. The TCA approach emphasises the analysis of the operating cost efficiency in the country candidate. The EA approach advocates the matching process of the firm’s competitive advantages with the country candidate’s specific advantages and factors, i.e. the country’s risk level, its cultural difference with the firm’s base country, its market potential, and the firm’s market knowledge.

The Western approaches contribute to the negotiation literature by firstly providing explanations of a firm’s internationalisation process that is opportunistic in nature. Their concept of opportunism is either based on cost (TCA), financial benefits (OMF approach) and matching/level of control analyses (EA approach). Secondly, they explore a universal and systematic approach to determining the market entry process. For example, the EA approach adopts a mechanical evaluation of the country candidate’s specific advantages and factors and tries to determine a composite score that can indicate the desired level of control in the potential joint venture establishment. Finally, they recognise that joint venture is an effective way to allocate resources of two partnering firms. For example, the TCA
approach advocates that joint venture is a more viable form of co-operation than other forms of market entry into another country.

The Western approaches have their limitations. They are strong in explaining an international firm’s incentives that include higher profit, cheaper factoring cost, or competitive advantages to enter a host country, but they fail to recognise the needs of an individual host country. For example, the need of the PRC market from joint venturing is to modernise its economy rather than making profit (Kwan 1998).

The Western approaches normally lack a cultural perspective. For example, the OMF and the TCA approach simply neglect the cultural variable. The EA approach treats culture as one of the factors within a composite score to generate a level of control. The EA approach implicitly allows the lack of cultural understanding to be compensated by an increase in other areas such as market and product knowledge. However, the appreciation of the host country’s culture may be an important strategy in some countries. For example, cultural exchange is one of the main objectives of the Chinese government to establish joint ventures with foreign firms which is indispensable (Wagner 1990).

2.3.2 Western view on organisational context

The previous section on environmental context addressed an international firm’s process of determining an entry to an international market through joint venture. This section reviews literature in relation to the organisational context of a joint venture. The Western literature on organisation context is mainly based the concept of Strategic Competitive Advantage (SCA) (Albrecht et al 1996). SCA has been deeply discussed by Porter (1985 and 1986), Lengnick-Hall and Lengnick-Hall (1990) and Albrecht et al (1996).

2.3.2.1 Value Chain

Porter (1985, 1986 and 1990) has introduced the concepts of the value chain and categorises a firm’s nine activities into two functional groups of activities i.e. the primary and support functions:

<table>
<thead>
<tr>
<th>Primary functions</th>
<th>Support functions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and Development</td>
<td>Finance/Accounting</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Human resource management</td>
</tr>
<tr>
<td>Marketing</td>
<td>Technology development</td>
</tr>
<tr>
<td>Outbound logistic</td>
<td>Procurement</td>
</tr>
<tr>
<td>Services</td>
<td></td>
</tr>
</tbody>
</table>

The relationships of the above support and primary functions can be found in figure 2.3.
Porter (1985, 1986 and 1990) recognises that a firm must tightly link the chain of its support and primary functional activities together to create value for their buyers, that is the price the firm’s customers are willing to pay for its products or services.

Figure 2.3  The Value Chain
Source: Porter EM (1990)
The value chain is a systematic way of displaying and categorising a firm’s functional activities. These activities can further be divided into 2 groups i.e. the support and primary functional activities as shown. At each stage of the value chain there exists an opportunity to contribute positively to a firm’s competitive strategy by performing some activity or process in a way that is better than the competitors, and so providing some uniqueness or advantage.

A firm gains its competitive advantage by finding new ways to arrange the value chain activities, new procedures for job accomplishment, new technology, or new inputs to its various processes (Keegan 1995). The key to competitive advantage lies in a firm’s ability to manage its two functional groups of activities as a system, rather than a collection of independent activities. Improvements in competitive position can be achieved by restructuring the value chain to optimise those activities and linkages that produce a cost curve significantly lower than its competition.

In coping with the competitors by re-organising its support and primary functional activities, a firm will have three potential generic strategic options to outperform competition in a global industry (Porter 1980):

1. **Overall Cost Leadership**- Cost leadership requires aggressive construction of efficient-scale facilities, vigorous pursuit of cost reduction from experience, tight cost and overhead control, avoidance of marginal customer accounts, and cost minimisation in areas like R & D, service,
sales force, advertising, and so on. A great deal of managerial attention to cost control is necessary to achieve these aims. Lower cost relative to global competitors becomes the theme running through the entire strategy, through quality, service, and other areas cannot be ignored.

2. Differentiation – Differentiation requires a firm to create a product or service that is perceived industry wide as being unique. Approaches to differentiating can take many forms: design or brand image, technology, customer service, dealer network, and/or other dimensions.

3. Focus – Focus means concentrating on a particular buyer group, segment of product line, or geographic area with respect to a global industry. The entire focus strategy is built around serving a particular target market very well; the policies related to each functional area are developed around this ‘focus’.

**The findings of the value chain concept:**

Porter’s work (1985, 1986 and 1990) is very important:

- It helps marketers understand the importance of linkage among the functional activities and their relationships to a generic strategy. Re-structuring of these functional activities helps a firm designate on one generic strategy that is sustainable, defensible, profitable and valued by the market (Hollensen 1998).

**The limitation of the value chain concept:**

- It adopts a universal approach to competitive advantage and lacks a cultural perspective in global market.

2.3.2.2 Business strategy

Lengnick-Hall and Lengnick-Hall (1990) reckon that the two partnering firms negotiate a business strategy for an international joint venture based on careful evaluation of four components:

1. Defining the product market investment decision such as a firm’s product decision, its investment intensity such as timing of capital inflow, and its resource allocation such as amount of investment;

2. Defining the functional area strategies a firm must determine its functional polices in terms of Porter’s (1985 and 1986) nine categories of activities. Albrecht, et al (1996) argue that the analyses of their functional activities within their value chains enable the two partnering firms to seek competitive advantage under an effective co-operative collaboration;
3. Determining the source of competitive advantage and the key competencies the two firms need to accomplish a sustainable competitive advantage in that market; and

4. Developing synergistic effects between the two firms. It means that the two partners are dependent on one another, and their joint venture should complement their existing businesses. For example, the product/market that the joint venture targets should not be the same as their existing businesses.

The finding of the Business strategy concept:

- It recognises the importance of synergy in an international joint venture situation. The two partnering firms must adopt co-operative attitude to reconcile the functional activities of their value chains to form an international joint venture through negotiation, that is complementary to their existing businesses.

The limitation of the Business strategy concept:

- It assumes its application is universal but it does not address the complex problem of culture.

2.3.2.3 International joint venture strategic planning

Albrecht, et al (1996) have extended Porter (1985, 1986 and 1990) and Lengnick-Hall and Lengnick-Hall’s (1990) work by integrating their respective contributions to generate an International Joint Venture Strategic Planning Model (IJVSP). The model helps to explain how negotiators of the two partnering firms negotiate a business strategy for a joint venture. Their IJVSP model is presented in figure 2.4.

This model advocates that the two partnering firms must do independent evaluation on the four components proposed by Lengnick-Hall and Lengnick-Hall’s (1990). If the two firms can find synergy among themselves, they will establish an international joint venture. The determination of an international business strategy enables the two partnering firms to develop either a cost leadership, differentiation innovation, or focus orientation (Porter 1985 and 1986) which becomes the strategic competitive advantage of the joint venture.
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The findings of International Joint Venture Strategic Planning Model:

- The two joint venture parties are independent entities. They formulate their own business strategies in terms of Lengnick-Hall and Lengnick-Hall’s (1990) four components. The formulation of their business strategies involves evaluation of 1) their own value chains, 2) their own competitive advantages in the market, 3) their own market positions in the product-market, and 4) the synergistic effects in the joint venture before they negotiate for a business strategy of their joint venture with the other side.

- The business strategy of this joint venture must be strategically fitted into the value chain of the two parties (Sundaram and Black 1992). That means the resources of the two firms can complement but not compete with one another, and yet give them a strategic competitive position in the international market; and

- The joint venture also nicely fits into the market environment; the firms pursue a joint venture business strategy that is sustainable in competitive term.

The limitations of International Joint Venture Strategic Planning Model:

- It adopts a universal approach to joint venturing and assumes that the two joint venture partners come from the same culture. Neglecting the cultural effect in the process of negotiating for an international joint venture is not realistic in cross-cultural situation (Kublin 1995); and

- The strategic competitive concept is not appropriate to the Chinese environment. China is a centrally planned economy and the joint venture itself must be in harmony with Chinese cultural and market environments.

2.3.2.4 Summary of organisational context evaluation

The Western approaches to organisational context evaluation recognise the importance of a firm’s linking its internal organisational context with its external environment; it is mainly based on strategic competition (Porter 1985 and 1986). A firm’s functional activities must be arranged according to that firm’s evaluation of its external environment to create a value that is appreciated by the customers. The integration of a firm’s internal organisational context with its external environment allows the firm to formulate a business strategy that is either cost leadership, differentiation innovation, or focus-oriented.

The concept of competitive advantage continues its influence in an international joint venture situation. The negotiators of two venturing firms evaluate their business strategies in terms of four components proposed by Lengnick-Hall and Lengnick-Hall’s (1990) and negotiate for an
international joint venture business strategy that emphasises the strategic competitive advantage in the market. This business strategy must be synergistic in nature (Albrecht et al 1996). The resources of the two firms must be complimentary to one another, and the operations of the joint venture must be strategically fitted into their value chains.

On the other hand, these approaches adopt a universal perspective to joint venturing and lack of a cultural perspective that negotiators of the two firms must manage carefully.

### 2.3.3 Western view on negotiation process

The previous two sections on environmental and organisational contexts uncovered the international firm’s motivation of negotiating a joint venture with another firm and the influence of the organisational context exerted on these two firms. This section is used to review the schools of thought on the negotiation process from a Western prospective.

Three schools of thought i.e. 1) business approach 2) social/ psychological approach and 3) economic approach conceptualise negotiation as an exchange process. These three schools of thought will be reviewed and summarised in the following sections.

### 2.3.3.1 Business approach

The Western business approaches on negotiation have been dominated by the Harvard method of principle negotiation and its win/ win negotiation approach. The Harvard approach was subsequently modified by the International Institute for Management Development (IMD) in Switzerland. These three approaches will be presented in this section and a summary will be given on the findings and limitations on business negotiation theories.

#### 2.3.3.1.1 Harvard method of Principle Negotiation

The Harvard Method of Principle Negotiation emphasises mutual gains (Fisher and Ury, 1986). This method recognises that negotiators have two kinds of interest i.e. persuading the negotiation substance and building up inter-relationships with the other party. Negotiators who take up initial positions and start negotiating, making concession, and reaching compromise, actually making trade-off between these two interests. Both sides tend to start from pre-determined positions. Their initial established positions confine negotiators of both sides to develop their egos which drive them to reconcile future actions with established positions in order to arrive at the pre-determined company targets and save face for their psychological satisfactions. This reconciliation may be confined to the face saving
behaviours and may deviate from both parties' original interests. As a result, further negotiations become difficult. Fisher and Ury (1986) argue that if both parties consolidate friendship and resolve differences in perceptions before the actual negotiation begins, the psychological aspects of negotiators can be isolated, and negotiation can commence because mutual understanding have been implanted. Negotiators of both sides, under this scenario, can focus on mutual interests but not pre-determined positions and achieve joint profits based on some objective standard. This method consisted of four basic components:

- **People**: Separate the people from the (psychological) problem.
- **Interests**: Focus on mutual interests (or gain), not positions.
- **Options**: Generate a variety of possibilities (or options) before deciding what to do.
- **Criteria**: Insist that the result be based on some objective standards.

Fisher & Ury (1986, p11)

This method advocates the psychological barriers such as egos of negotiators of both sides could be removed through establishment of friendship between them so that they can concentrate on mutual interests or gains but not pre-determined positions. Their mutual interests allow both negotiating teams to generate a variety of options or scenarios that include some objective standards. Their negotiation agreement can then be based on these objective standards.

The contributions of the Harvard method of Principle of Negotiation:

- It Realises that mutual interests or gain, objectives and options (or offers) are vital negotiation planning components; and
- It recognises that friendship is a strategic tool to reconcile psychological differences.

The limitations of the Harvard method of Principle of Negotiation:

- The assumption that psychological influences can be detached from the face-to-face negotiation is unrealistic. In fact, psychological influence can hardly be neglected in face-to-face negotiation (Graham et al 1988); and
- Universality is assumed in this approach, and cultural aspects of joint venture negotiation are not mentioned. In fact, cultural management is important when negotiators of both sides coming from different cultures. For example, the drinking and eating habits and seating arrangements and the Chinese concept on time are difficult to understand from the Westerners’ perspective (Mente, 1992).
2.3.3.1.2 Harvard Win/Win negotiation

Maddux (1988) has advanced Fisher and Ury’s (1986) work by explaining the concept of mutual gains in terms of Unique Selling proposition (USP). The concept of USP emphasises the uniqueness of proposal that one party sells to another party through negotiation. For example, party A is a large manufacturer with a large block of land under their control whereas party B is a property developer who is interested in the land under A’s control. Party B’s negotiators ought to have positive problem solving attitudes to handle interests of both party A & B through negotiation i.e. how can party B help party A continue their manufacturing operation while developing party A’s land at the same time. This scenario is common in business situations like joint venture. The problem solving skills can be learned and provide party B with courage and confidence necessary to negotiate with party A, and initiate fruitful negotiations.

In a successful negotiation, a negotiator obtains something of greater value in exchange for something on which he or she places a lower relative value. Both parties could win. They may have wished for more, but end up satisfied. In other words, both parties gain benefits from this kind of exchange process. The above example shows that party A can continue operating their manufacturing business and share profit in the property development and party B can acquire the land at a much lower price and earn profit from the joint property development.

Maddux (1988) argues that a win/ win situation can occur if both parties negotiate with reasons that are unique to the parties involved. An exchange is possible when each party can obtain what is of higher priority or satisfaction to them at that time. Maddux (1988) advocates a six-step negotiation process:

C) S  Getting to know one another and establishing friendship.
    t
    e
    p
    l

Step 2  Statement of goals and objectives.
Step 3  Starting the process.
Step 4  Expressions of disagreement and conflict resolution are not a test of power but an opportunity to reveal unique interests of both parties.
Step 5  Reassessment and compromise.
Step 6  Agreement in principal or settlement.

(Maddux 1988, p29)
This method advocates the establishment of friendship should take place before formal negotiation. Mutual understanding of both parties enables them to formulate their goals and objectives with unique selling proposition (USP) in mind. Both parties reveal and make compromise on their interests during the bargaining process. A final settlement can be reached through this co-operative environment.

The findings of the Harvard Win/Win negotiation:

- It recognises negotiators should use the technique of USP to achieve goals such as objectives listed on the joint statement that protects individual party's unique interests;
- It identifies that the negotiation process is an algorithm between two parties to reveal disagreements that deviate from their company's objectives and unique interests in the cooperation; and
- It emphasises that personal relationship should be established at the appropriate levels to make reassessment or compromise.

The limitations of the Harvard Win/Win negotiation:

- It neglects individual negotiators' psychological influences acting upon the negotiation process and to some extent, the negotiation outcome; and
- Universality is assumed in this approach; and it lacks a cultural management concept in cross-cultural negotiation.

2.3.3.1.3 The International Management Development (IMD) Business negotiation approach

Hiltrop and Udall (1995) have advanced Maddux's (1988) work by proposing a three stage business negotiation process that emphasises the dynamics of strategy manipulation used by both negotiation parties to achieve common agreement of contract through bargaining. This process is detailed below:

Pre-negotiation stage

Preparation: In which the negotiators identify the unique interests of both parties and establish objectives for these interests.

Developing a strategy:

Getting started: In which each party decides what style and strategy to adopt.

Negotiation stage

Building understanding: In which each side conveys information, shapes the climate, and sets the agenda.

Bargaining: In which the negotiators justify their position and try to weigh up the other's position.

In which each party tries to get concessions.
**Contract signing stage**

**Closing:** In which final agreement is reached or the negotiations are terminated short of an agreement.

Hiltrop and Udall (1995, p.17)

**PRE-NEGOTIATION STAGE**

**Preparation**

Each party carefully considers the issues such as technology transfer, production volume, sales volume and establishes objectives on these interests before the formal negotiation starts. The objective setting process generates different scenarios that allow a negotiation team to be more flexible with their counterparts in the bargaining sessions.

**Developing strategy**

A party must assess the other side’s negotiating style and adopt a suitable style to avoid conflict during the negotiation stage. According to Thomas and Kilmann (1974), there are five negotiating style i.e. collaborating, compromising, accommodating, controlling, and avoiding.

*Collaborating* - this style is to maintain interpersonal relationships and to ensure that both parties achieve their business goals. A negotiator acts not only on behalf of his or her self-interest but on behalf of the opposing negotiator’s interests as well. This is a co-operative approach that requires both parties to take a ‘Win/Win’ stance (Maddux 1988). The objective to adopt this style is to integrate different point of views of both sides to achieve their business goals.

*Compromising* – this style assumes that a Win/Win stance (Maddux 1988) is not possible. Both parties adopt a compromising attitude and are willing to accept a little bit of winning and a little of losing, with respect to the goals and the relationships of the parties involved. Persuasion and manipulation dominate this style. The compromise posture means that both parties adopt a ‘mini-win-mini-lose’ stance. It is used when one side wants to achieve settlements to complex issues.

*Accommodating* – this style involves maintaining the interpersonal relationship at all cost, with little or no concern for the business goals of the parties involved. Giving in, appeasing and avoiding conflict are viewed as ways of protecting the relationship. This is a yield or ‘lose-win’ posture, in which the one side’s stance towards managing the conflict is to yield-lose, allowing the other party to win. It is used when one side has less bargaining power and attempts to minimise loss on some issues.
Controlling – this style is to take the necessary steps to ensure that business goals are met, whatever the cost to the relationship. Conflicts are viewed as a win or lose proposition, with winning somehow equated with status and competence. This is a power-oriented approach in which a negotiator uses whatever power seems appropriate to defend a position which (s)he believes is correct or simply attempt to win. It is used when the issues are too important to one side, and therefore this side wants to control them.

Avoiding – one side views conflict as something to be shunned at all cost. A central theme of this style is evasiveness, which results in a high degree of frustration for all parties involved. Business goals are usually not met, nor is the personal relationship maintained. This style might take the form of diplomatically diverting an issue, postponing an issue until a better time, or simply withdrawing from a threatening situation. It is used when the issues are not important.

In a joint venture negotiation situation, a negotiation team seldom adopts one single style. It may adopt a mixture of the above styles (Thomas 1977). For example, the team may determine technology transfer is too important for them and therefore they may be not willing to compromise on this issue and attempt to control it. However, they may compromise on other issues such as production volume in order to maintain the personal relationship between both parties. On other issue such as employment, they may attempt to take a collaborating style to integrate both parties' requirements. For example, a foreign party must adopt a collaborating style on employment policy in a Sino-foreign joint venture situation, established by the Chinese government.

Getting started

Just before the formal negotiation starts, both parties exchange information and establish the climate. Information exchange includes negotiation parties' attitudes on the structure (mode of co-operation) of the joint venture project, aspirations, intentions and perceptions of the other party and the issues (amount of investment, duration of co-operation, etc). Shaping climate involves creating co-operative atmosphere so that both parties can establish their mutual agreement of the negotiation items on the agenda.

NEGOTIATION STAGE

During negotiation, both parties establish their understanding by clarifying information, using the techniques of probing and questioning. Their views on the joint venture need to be fully expressed. Both parties also attempt to reach an agreement through handling of objections and offering concessions and manipulation of negotiating style.

CONTRACT SIGNING STAGE
Both parties have to decide on whether they can co-operate. If the answer is yes, they will sign an agreement. In any case, the terms of agreement need to be fully digested to avoid future conflict.

The findings of the IMD negotiation:

- It recognises that the negotiation process can be divided into three stages, i.e. the pre-negotiation stage, the negotiation stage, and the contract signing stage;
- It recognises the importance of strategic dynamics of negotiation. In saying that, negotiators of both sides can use five different negotiation styles and formulate their strategies in negotiating their goals;
- It realises the importance of issue and objectives identification and information gathering; and
- It perceives that contract signing is the end of the negotiation.

The limitations of the IMD negotiation:

- The assumption of contract signing equates to the end of negotiation cannot be applied to Chinese negotiation. In China, signing of a contract may only mean the beginning of another round of negotiation (Pye 1982, 1986). After signing the contract, it must be approved by the Chinese authority. During the approval period, the Chinese party may negotiate for changes because of changes in economic development in China (Mente 1992); and

2.3.3.1.4 Summary of business negotiation from Western perspective

The business negotiation approaches contribute to the understanding of the negotiation process, principles and strategies which can be summarised in figure 2.5.
Figure 2.5  Summary of literatures on business approach on negotiation

<table>
<thead>
<tr>
<th>NEGOTIATION PROCESS</th>
<th>SOURCE</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The pre-negotiation stage</strong></td>
<td></td>
</tr>
<tr>
<td>• Must have mutual interests to start the negotiation.</td>
<td>Fisher and Ury 1986</td>
</tr>
<tr>
<td>• Must have clearly identified objectives or goals and prepare various options or alternative scenarios.</td>
<td>Fisher and Ury 1986; Maddux 1988; Hiltop and Udall 1995</td>
</tr>
<tr>
<td>• Must establish friendship at appropriate level.</td>
<td>Fisher and Ury 1986; Maddux 1988</td>
</tr>
<tr>
<td><strong>The negotiation stage</strong></td>
<td></td>
</tr>
<tr>
<td>• Must use different pre-determined negotiating styles to present their case, to defend their positions, and to collect information.</td>
<td>Hiltop and Udall 1995</td>
</tr>
<tr>
<td>• Must adopt Unique Selling Proposition (USP) in presenting proposal.</td>
<td>Hiltop and Udall 1995</td>
</tr>
<tr>
<td>• Must achieve mutual understanding through resolution of disagreement and reach an outcome that satisfies both parties.</td>
<td>Maddux 1988</td>
</tr>
<tr>
<td><strong>The contract signing stage</strong></td>
<td></td>
</tr>
<tr>
<td>The outcome is a contract that equates to the end of negotiation</td>
<td>Hiltop and Udall 1995</td>
</tr>
</tbody>
</table>

The business approach to negotiation has the following limitations:

• It is misleading to assume that negotiation is a mechanical process that automatically leads to an outcome. Recent research in relation to Chinese negotiation suggests that negotiation can be a very long process that may not have a fruitful outcome, after several years of delay (Yan 1995);
• The negligence of negotiators’ psychology in these studies also depletes the richness of the negotiation scenario; and
• Universality is assumed in these approaches, and the lack of the cultural management element in these processes limits their application in cross-cultural negotiation. Recent research in Chinese negotiation emphasises the use of personal contact or “Guanxi” as an important Chinese cultural element as institutional support (Xin and Pearce 1996).

### 2.3.3.2 Psychological approach

The business approach is rich in identifying the procedural content in joint venture negotiation but is limited in describing the complicated negotiators' psychological context. In this section, the author complements the business approach by an inclusion of psychological components through a thorough review of the negotiation literature from a psychological perspective.

#### 2.3.3.2.1 The Expected-Satisfaction Theory

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Karrass (1970) has introduced two concepts Problem Solving Attitude (PSA) and Share Bargaining in his ‘Expected-Satisfaction’ Theory. PSA is defined as “two parties attempting to improve the joint satisfaction in the outcome resulting from their negotiation process at no loss to either party” (Karrass 1970, p.3). A negotiation process with a PSA is co-operative and honest, and aims at 1) collecting information and 2) exchanging information with the other party during negotiation aiming at directing both parties toward some common goals (Graham 1986). On the contrary, a party equips itself with ‘Share Bargaining’ attitude would gains something at the expense of the other party. This theory assumes that negotiators of both sides have different value systems and goals. Their desires to achieve joint satisfaction improvement initiate them to start negotiations. If both parties adopt a PSA in the negotiation process, the negotiation outcome may be fruitful (a win/win situation) or visa versa (win/lose or lose/win situation) if either party bear the ‘Share Bargaining’ attitude. Transactions cannot result if their future expectations of satisfaction are not materialised. This model describes human beings as economic mechanisms that have either a Problem Solving Attitude (PSA) or a Share Bargaining Attitude when they engage in exchange behaviour through negotiation process. The adoption of either one of the two attitudes can lead to completely opposite results.

The Findings of the Expected-satisfaction Theory:

- Two types of attitude and their relationship with expected satisfaction exist, i.e. the Problem Solving Attitude (PSA) and the Share bargaining Attitude. A problem-solving attitude (PSA) can produce a positive negotiation result. A share-bargaining attitude can produce a negative result.

The Limitations of the Expected-satisfaction Theory:

- It lacks a description on the formation of these two attitudes; and
- It fails to explain the divorce of transaction because of the negotiators’ psychological disagreements (because of their egos or characters).

2.3.3.2.2 A Dyadic Negotiation Model

Spector (1978) has advanced Karrass’ (1970) work by defining negotiation as a process of value and behaviour modification in which peaceful means are used to alter divergent positions toward a common convergence of values. He argues that the complexity of negotiators’ personalities (the summing up of their qualities of bodies, minds and characters to produce their individualities) can influence their perceptions and expectations which in turn drive their negotiation behaviours and hence negotiation outcomes.

Spector (1978) used college students to participate in his dyadic negotiation experiment. He attempted to capture the students’ personalities by using a set of step-wise self-explained questionnaires,
developed by Stein in 1963, to delineate the business situations of these students (Spector called it: hypothetical business-like re-distributive-bargaining scenario). These students basically adopted a Share bargaining or distributive attitude that was defined by Karrass (1970). His model consists of three important concepts 1) the perception (P), 2) the behaviour (B), and 3) the outcome (O) of both negotiation parties. He hypothesised that the individual negotiator’s personality influences his/her perceptions and expectations that in turn influence the bargaining behaviour and the negotiation outcome. Their hypothesised relationships are presented in figure 2.6 below. The results indicated that negotiators with different personalities and situational expectation e.g. a very powerful buyer or a very powerful seller are likely to employ very different bargaining strategies which are easily influenced by the negotiators' behaviours.

Figure 2.6 A Dyadic Model of Negotiation
Hypothesized relationships among variables

The findings of the dyadic negotiation model:
- Negotiators' personality and ego are important determinants of the negotiation outcome and strategies adopted by one party are largely, but not solely, responsive to the other party's attitudes.

The limitation of the dyadic negotiation model:
- The use of college students in a laboratory negotiation setting may limit the application of findings in actual business negotiation environment (Graham et al 1986). These students did not
have the actual negotiation experience and they did not have the psychological burden of bearing companies' objectives and goals in their mindset;

- The experiment design did not require face-to-face contact between the negotiation pair, so eliminates the chance to develop friendships between the pair which is important to establish mutual understanding between them (Leung et al 1995); and

- The experiment did not have a cultural management that may limit its application to Chinese negotiation.

2.3.3.2.3 A buyer and seller negotiation experiment

Graham et al (1986) have extended others' works (Karrass 1970, Spector 1978, Simons et al 1970, Rubin and Brown 1975 and Graham 1986) by employing four variables, i.e. profit, PSA, interpersonal attraction and role of negotiator (buyer and seller) to compare the negotiation behaviour of four cultures i.e. U.S. (sample size: 138), Chinese (sample size: 54), Japanese (sample size: 42), and Korean (sample size: 38).

Profit is economic reward or outcome that a negotiator attempts to maximise during negotiation. PSA is defined as co-operative, integrative, and information-exchange oriented negotiation attitude. Interpersonal attraction is defined as emotional relationship (like or dislike, friendly feeling etc) between negotiators (Simons et al 1970). Role of negotiator is whether (s)he is a buyer or a seller.

The participants in the experiment were members of executive education programs or graduate business classes and had at least two years business experience in their respective countries. The participants were paired randomly and assigned to play the role of either buyer or seller in an intra-cultural (a negotiator negotiated his/ her own race) negotiation experiment. The intra-cultural negotiation results were compared and determined the differences in negotiation patterns.

The experiment involved negotiating the prices of three products. Kelly's (1966) negotiation instrument was used. Each bargainer was given an instruction sheet, including a price list with associated profit payoff at each price level. Each negotiation pair sat across and negotiated after 15 minute reading time for the instruction. A post-game questionnaire was given to each bargainer to complete after (s)he finished the negotiation.

The results show that:

- In negotiation between Americans, the use of more problem solving attitude (PSA) positively influenced negotiation outcome;

- In negotiation between the Chinese, more competitive strategies led to better negotiation outcome;
• In Japanese and Korean negotiations buyers achieved higher profits than sellers;
• In all four cultures, bargainers were more satisfied with negotiation outcomes when partners were rated as more attractive.

The above results suggest that generalisations about negotiation styles of different nationalities are fraught with danger. As Graham et al (1986, p53) admitted "an American model of negotiation appears to be irrelevant to the normative negotiation processes of two of its major trading partners: Japan and Chinese (Taiwan)." Generalisation of negotiation style cannot even be applied to nationalities in the same region. For example, Japanese, Chinese, and Korean all exhibit different negotiation styles according to the above results.

On the contrary, interpersonal attraction seems to be a universal principle. As Graham et al (1986, p53) stated: "if there is a universal principle, it is the importance of interpersonal attraction. For all four cultural groups, interpersonal attractiveness had strong influences on negotiation outcomes."

The findings of the buyer and seller experiment suggest:

• A universal model of negotiation does not exist; and
• Interpersonal attraction is a universal principle.

The limitations of the buyer and seller experiment:

• Intra-cultural research design limits the application on inter-cultural negotiation;
• The process of creating interpersonal attraction during negotiation in an inter-cultural environment remains unknown; and
• The experiment was conducted on face to face basis. Its application to a lengthy negotiation process is in doubt. Graham et al (1986, p54) admitted this limitation: "if the buyer-seller negotiation process differs at the face-to-face level, what happens to the process during the more protracted negotiations that occur involving television advertising, direct marketing campaigns,...and credit card transactions?"

2.3.3.2.4A Transaction Negotiation Model

Rinchart & Page, Jr (1992), based on the works of Spector (1978), Graham et al (1986) and Bagozzi (1978), visualised that negotiation is a dyadic exchange process between a buyer and a seller. They have developed a transaction negotiation model that consists of four basic constructs 1) relationship between the two parties; 2) personal influence exerted by each party; 3) their concession behaviour; & 4) outcome from the negotiation. On the basis of these constructs, they argue that a successful negotiation relies on both parties' understanding of the negotiation environment such as the reason of
carrying out negotiation and each party's perceptions of these constructs as well as their perception of the same constructs for the other party. The operationalisations of these constructs are noted in figure 2.7 below:

**Figure 2.7  A Transaction Negotiation Model**

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Operationalization</th>
<th>Operationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Relationship</td>
<td>First party's own perception</td>
<td>First party's perception on second party</td>
</tr>
<tr>
<td>Personal Influence</td>
<td>Own dependence</td>
<td>Their dependence</td>
</tr>
<tr>
<td>Concession Behaviour</td>
<td>Own influence</td>
<td>Their influence</td>
</tr>
<tr>
<td>Outcome</td>
<td>Own concession</td>
<td>Their concession</td>
</tr>
<tr>
<td></td>
<td>Own success</td>
<td>Their success</td>
</tr>
</tbody>
</table>

They conclude that negotiation activities represent a structural process leading to an outcome. Their findings concur with those of Anderson and Narus (1990) that establishment of dependence is an influential factor prior to the existence of a working partnership-relationship. The negotiator's perception of dependence is generated through an evaluation or estimation of the foundation of business relationship between the parties. These foundations are business relationships such as the percentage share by each party in the total business, the sharing of resources between parties, the number of competitors in the selling firm's market, and the density or number of customers in the buying firm's market. As Rinehart and Page, Jr (1992, p 27) emphasised: "negotiator must accurately assess the nature of the dependence relationship between the parties to develop appropriate influence strategies that lead to successful outcomes. An accurate perceptions of the strategies implemented by the other party is important."

The understanding of these strategies indicates on concession levels that ultimately leads to the establishment of either adopting a problem solving attitude (PSA) or a distributive strategy. PSA calls for open information exchange such as service costs, desired service levels, volume needed and equipment availability, and liability and claim options. An effective information exchange raises the quality level of information for further discussion in a co-operative environment, and a win/win situation (Maddux 1988) may result. Conversely, a negotiator using a distributive strategy may intend to look for opportunities for individual gain in the negotiation and therefore limit his/her counterpart to access useful and accurate information. Limited information exchange orients the other party towards perceiving a lower benefit achievement in the negotiation. This environment may result in a win/lose situation (Rinehart & Page, Jr, 1992).

The findings of the transaction negotiation model:

- It demonstrates the importance of the negotiation environment;
- It emphasises the importance of interdependence and relationship maintenance during the negotiation process;
- It describes the formation process of the problem solving attitude (PSA); and
• It confirms the win/lose situation created by the use of a distributive attitude.

The limitation of the transaction negotiation model:

• It lacks a cultural variable in the model that limits its application in a cross-cultural negotiation environment.

2.3.3.2.5 Summary of the psychological approach from a Western perspective

The psychological approach contributes to the negotiation literature by identifying the following important negotiation characteristics: 1) the interdependence between firms/relationship maintenance; 2) the relationship between interpersonal attraction and the problem solving attitude (PSA); and 3) the result of using a distributive attitude. It also confirms that a universal negotiation model does not exist.

Negotiators of both sides must also accurately assess the nature of interdependence between firms in terms of business relationships such as sharing of resources and percentage share between the two firms. This understanding of the importance of interdependence calls for relationship maintenance during formal negotiation.

The relationship maintenance atmosphere initiates negotiators of both sides to develop interpersonal attraction between parties. Interpersonal attraction is defined as a relationship (like or dislike, friendly feelings) between negotiators which has a positive influence on negotiators' problem solving attitude (PSA). If negotiators of one side establish a favourable attitude toward the negotiators of the other side, they will probably adopt a PSA in their negotiation assignment. An effective information exchange produced by PSA raises the quality level of information for further discussion in a co-operative environment and a win/win situation may result.

Conversely, a negotiator using a distributive strategy may intend to look for opportunities for individual gain in the negotiation and therefore limited his/her counterpart to access useful and accurate information. Limited information exchange initiatives other party perceiving lower benefit achievement in the negotiation and therefore result in a win/lose situation.

Finally, the psychological approach also confirms that universality of negotiation model does not exist because the negotiating styles of different cultures are different.

The contributions of the psychological approach are important. However, it has its limitations. First, all the studies were conducted in an intra-cultural situation and therefore the applications of the research findings in an inter-cultural environment are fraught with danger. Second, all these studies
confined their experiments to face-to-face negotiating scenarios and therefore their applications to a lengthy negotiation assignment such as those in Chinese are questionable. Finally, the process of creating an interpersonal attraction in an inter-cultural environment remains unknown.

2.3.3.3 Economic approach

The marketing and psychological approaches of negotiation have been discussed in previous sections. The author will present negotiation literature from the economic approach in this section. The early economic models of bargaining heavily relied on the use of utility function and game theory to investigate the behaviour of players who were usually two countries (Chan 1988), or two individual bargainers (Bolton 1991). Their approaches will be discussed in this section.

2.3.3.3.1 Axiomatic international trade bargaining approach

Chan (1988) used Nash’s (1950) bargaining approach to investigate the impact on negotiation outcomes. Two countries, with pre-determined feasible utility-payoff sets enter into bargaining for international trade. To settle the trade disputes, these two countries will process problem solving attitude (PSA) and attempt to solve the disputes by determining an equilibrium position that satisfies the trade requirements of the two countries. In order to satisfy the axiomatic requirements, he made four assumptions in his negotiation model (Nash 1950, Dwyer and Walker 1981):

Assumption 1 Players (countries) have full information on the preferences of their opponents (trading partners). Usually, a country’s economic data and its voters’ preferences are public knowledge; the facilities to assess a trading partner’s socio-economic status are always available. This assumption implies that the bargaining solution must be efficient. With perfect information, there is no reason to believe that rational utility-maximising players will leave any mutual gains unexplored.

Assumption 2 In a well-integrated world financial market, countries have identical discount rates.

Assumption 3 Negotiators from each country have equal bargaining skill.

Assumptions 2 and 3 imply that the bargaining solution should be symmetric. In identical situations, both countries should be rewarded in the same way.

Assumption 4 Assessing trade gains is complicated and costly.

The finding of the Axiomatic international trade bargaining approach:
• It identifies information is an important prerequisite to successful negotiation.

The limitations of the Axiomatic international trade bargaining approach:

• The assumption of equal bargaining skills could hardly be applied in real life situations. For example, negotiators of both sides’ procession of equal bargaining skills may not be realistic. Negotiators coming from different cultural and educational backgrounds are bound to process different strengths in their bargaining skills;

• The assumption of equal bargaining power among countries is not applicable. For example, the U.S. will definitely have more bargaining power than those countries in Africa when negotiating because the U.S. has a strong economic influence on those countries. The study also neglected the possible psychological reactions of the negotiators.

• The assumption of axiomatic solution i.e. equal payoff is unrealistic in real life situation. In real life, bargainers are likely to employ strategies inconsistent with axiomatic solutions (Raiffa 1982, Sebenius 1992).

2.3.3.3.2A comparative model based on distributive attitudes

Bolton (1991) describes a comparative model that challenges Chan’s (1988) use of a problem-solving attitude (PSA) in the utility approach. Instead, Bolton (1991) incorporated a distributive concept into his comparative model that is based on utility functions of the two bargainers. The comparative model is a modification of the conventional theory, deriving predictions, as does the conventional theory, from utility maximisation and perfect equilibrium. It demonstrates that game theory can provide useful explanations for the behaviour observed in this type of laboratory bargaining. More specifically, it shows that there is a strategic, as well as a “fairness” aspect to the way in which subjects bargain.

In Bolton’s (1991) bargaining environment, there are two bargainers, α and β. They seek mutual agreement on sharing a pie. Attention will be restricted to a two-period version of the model. In the first period, α proposes a division of the pie that β either accepts or rejects. If β accepts, the pie is divided in accordance with α’s proposal; otherwise, the game proceeds to the second period, and due to time delay, the pie shrinks. Now roles are reversed: β makes a proposal. If α accepts, the pie is divided accordingly; otherwise, the game ends in “disagreement,” with both bargainers receiving nothing. In Bolton’s (1991) conclusion, bargainers seem to desire “fairness” for themselves, treating fairness for their partners as their partners’ problem (distributive attitude) (Putnam 1990). Obtaining fairness does not appear to be a moral imperative: subjects consider the pecuniary price and have varying preservative values. Bargainers making proposals must take this into consideration or suffer the consequences. In fact, coping with this situation is the dominant strategic aspect of the game. The
resulting behaviour can be captured in a sub-game-perfect-equilibrium model in which “money” and “fairness” (relative money) are incorporated into bargainer utility functions as substitutable goals.

The finding of the comparative model:

- It describes the psychology of a bargainer if (s)he adopts a distributive attribution in negotiation. (S)he will only accept some solutions which seem to be fair from his/ her point of view and will not consider the ‘fairness’ from his/ her opponent’s viewpoint.

The limitations of the comparative model:

- Its assumption of bargainers’ adaptation of distributive attitude may not be appropriate in some cases. For example, both parties can be in a co-operative situation in real life. In a win-win situation, both parties can work towards a common goal. Resources of both parties can be jointly planned and utilised through negotiation (Maddux 1988).
- The concept of applying utility to negotiation is very limited in scope. In fact, the concept of utility becomes less precise when it is used to place a value on non-monetary items such as union security clauses, grievance procedures, and seniority provisions (Leap 1995).

2.3.3.3 Summary of the economic approach from a Western perspective

The economic approaches heavily rely on game and utility theories to predict negotiation outcome. They rightly point out that negotiation is a dyadic process and the two parties have their own psychology (Problem Solving Attitude (PSA)/ Distributive Attitude) which are pre-determined. These findings coincide with those of the psychological approach. Also, they correctly conceive that information is an important perquisite to a successful negotiation.

The limitations of the economic approach stem from their assumptions. Firstly, the assumption of equal bargaining skill among negotiators is not realistic. Schermerhorn et al (1997) recognise that a particular skill of an individual is influenced by his/ her aptitude and ability. Aptitude represents an individual’s capability of learning something, whereas ability reflects a person’s existing capacity to perform various tasks needed for a given job. Two individuals are bound to have different aptitude and ability, and therefore the skills they process are bound to be different! Second, the assumption of equal bargaining power between countries is unrealistic. America certainly has more political influence and therefore bargaining power than a country in Africa on trade. Finally, the assumption of equal payoff is unrealistic because individuals’ utility function is unique, and therefore the payoffs in term of utility of bargainers are different.
2.3.3.4 Summary of negotiation process

The Western concept of negotiation recognises that negotiation is a stage-wise goal-directed resolution process. These stages are 1) the pre-negotiation stage, 2) the formal negotiation stage, and 3) the contract signing stage.

At the pre-negotiation stage, the two negotiating parties must have mutual interest. They realise this mutual interest by recognising the nature of interdependence such as sharing of resources and percentage share of business between the two firms. The understanding of the importance of interdependence initiates firms to collect information that enables them to develop various options or alternative scenarios with objectives and goals. Also, the nature of interdependence between the two firms calls for relationship maintenance that creates interpersonal attraction at this stage.

During the formal negotiation stage, the two negotiating parties will adopt a problem-solving attitude (PSA) that motivates them to collect further information if they have established interpersonal attraction. PSA allows negotiators to assess negotiation atmosphere and initiate them to employ a mixture of negotiating style. For example, a negotiating team may determine the issue of technology transfer is too important for them and therefore they may be not willing to compromise on this issue and attempt to control it. They may compromise on other issues such as production volume in order to maintain the personal relationship between both parties. On other issue such as employment, they may attempt to take a collaborating style to integrate both parties’ requirements. For instance, this party must adopt a collaborating style on employment policy in Sino-foreign joint venture situation that is established by the Chinese government. A win/win situation can achieve through mutual understanding of the other side’s needs and under a co-operative negotiation environment. However, if the two parties cannot establish interpersonal attraction, they may use the distributive attitude that limits the information exchange between the two parties and result in a win/lose situation.

Both parties will sign a contract to include all issues agreed during the formal negotiation stage at the contract signing stage. After signing the contract, both parties will start their working-party relationship.

An investigation on the negotiation process from the business, psychological and the economic approaches help release some of the limitations presented at sections 2.3.3.1.4, 2.3.3.2.5 and 2.3.3.3.3. For example, the lack of psychological aspects in the business approach is complemented by the concepts of interpersonal attraction and PSA in the psychological approach. The dynamic of the negotiation interaction is partly explained by the game theory in the economic approach. However, these approaches still have limitations. First, the concept of universality is assumed in these approaches, and therefore cultural aspects of negotiation are neglected. Second, interpersonal attraction is a universal term to explain the reason of creating personal relationship. Nevertheless, the
operationalization of this interpersonal attraction within the individual culture remains unknown. Finally, the three-stage negotiation process may not be applicable to some cultures. For example, Pye (1982, 1986) claims that the real negotiation starts after both parties sign the contract in a Chinese culture.

2.3.4 Western view on negotiation culture

One of the common limitations as clearly mentioned in the summaries of the previous sections is the non-existence of a cross-cultural perspective in the theories and models. This is attributable to the fact that these theories and models were developed from the West in an intra-cultural environment that automatically eliminated the employment of a cultural element in establishing these theories and models. Direct applications of these theories and models by international negotiators to different cultures will end up with two problems i.e. parochialism and ethnocentrism. Parochialism is the act of assuming the ways of one culture are the only ways of doing things. Ethnocentrism is the act of assuming that the ways of one’s culture are the best ways of doing things (Adler 1991). Therefore, international negotiators must understand differences among cultures before they can effectively negotiate with their counterparts. This section is to review the dimensions of culture (Hofstede 1984, 1991, Hofstede and Bond 1988) and the differences between Western and Chinese cultures (Buttery and Leung 1998) to give readers an explanation on the inappropriateness of applying the Western negotiation theories and models in a Chinese setting.

2.3.4.1 Western cultural dimensions

Culture is people’s learned, shared way of doing things in a particular society (Hogan 1991). It includes “both conscious and unconscious values, ideas, attitudes, and symbols that shape human behaviour and that transmitted from one generation to the next” (Keegan 1995, p.118)’. Hofstede (1984, 1991) and Hofstede and Bond (1988) offer a framework for understanding value differences across cultures. The five dimensions of culture in their framework can be described as follows:

‘Power distance’ is a measure of the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally. It reflects the degree to which people are likely to respect hierarchy and rank in society (Schmerhorn et al 1997). A higher index means people within a country accept that some people are powerful than the others.

Individualism versus collectivism - is the tendency of a culture to emphasise individual versus group interests. It reflects the degree to which people are likely to prefer working as individuals or working in groups together (Schmerhorn et al 1997). A higher index means people in a society prefer working as individuals.
Masculinity versus femininity - is the tendency of a culture to value stereotypical masculine or feminine traits. It reflects the degree to which a society emphasises competitive and achievement-oriented goal behaviour versus more sensitivity and concerns for relationships (Schermersnorn et al 1997). A higher index means people in a society emphasises on performance and goal achievement.

Uncertainty avoidance - is a cultural tendency toward discomfort with risk and ambiguity. It reflects the degree to which people are likely to prefer structured or unstructured organisational situations. A higher index means people in a country prefer uncertainty avoidance.

Long-term versus Short-term orientation’ is the tendency of a culture to emphasise values associated with the future, such as thrift and persistence, versus values that focus largely on the present. It reflects the degree to which people and organisations adopt long term or short term performance horizons. A higher index means people in a country prefer long term performance.

The first four dimensions in the above framework were originated from Hofstede’s study of 116,000 IBM employees in more than 40 countries in 1980. Later he added the fifth dimension of long-term versus short-term orientation.

Figure 2.8 Value index of Hofstede’s five dimensions in major Western cultures

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Power distance</th>
<th>Individualism</th>
<th>Masculinity</th>
<th>Uncertainty avoidance</th>
<th>Long-term orientation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>36</td>
<td>90</td>
<td>61</td>
<td>51</td>
<td>31</td>
</tr>
<tr>
<td>Great Britain</td>
<td>35</td>
<td>89</td>
<td>66</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>USA</td>
<td>40</td>
<td>91</td>
<td>62</td>
<td>46</td>
<td>29</td>
</tr>
<tr>
<td>Average</td>
<td>37</td>
<td>90</td>
<td>63</td>
<td>44</td>
<td>28</td>
</tr>
</tbody>
</table>

Figure 2.8 shows the value indexes of major Western cultures. The low power distance indexes imply that Western cultures accept more equality among humans. The high individualism indexes show that Western cultures prefer individual performance. The low long-term orientation indexes indicate that Western cultures aim at short-term performance. The indexes for the masculinity and uncertainty avoidance are placed at the mid-range and therefore conclusive comments cannot be made.

The findings of Hofstede’s (1984 and 1991) cultural dimensions:

- He provides a set of cultural dimensions to measure cultural values of particular cultures;
- The confirmation of differences across different cultures implies that the applicability of the theories and models that were mainly developed from a Western perspective to a cross-cultural negotiation environment is questionable. This view is consistent with that of Graham et al (1986) that the author of this thesis pointed out in section 2.3.3.2.3. The writers admitted that generalisation of the American models to other cultures is not appropriate.
The limitation of Hofstede's (1984, 1991) cultural dimensions:

- Hofstede's cultural dimensions are useful in comparing cultural difference and provide characteristics of a specific culture. However, the operationalisation of these dimensions into a specific culture remains unknown.

2.3.4.2 Communication pattern

Harris and Moran (1993) argue that cultural differences result in different communication patterns. The Western communication pattern is dealt with by the Elashmawi and Harris' (1993) communication model that consists of three major processes, i.e. establishing rapport, exchanging information and persuading when they employed this model to determine the characteristics of Western communication in their negotiation assignment.

Establishing Rapport

Most Westerners value directness and are action- and task-oriented (Murray 1993). In most of their business encounters they will give less emphasis to personal relationships, and focus on the task. In negotiating with other cultures, Westerners do not give priority to a personal relationship. Establishing rapport does not go beyond exchanging business cards. Many Westerners like to do business over the phone, and are not really interested in meeting their clients face to face. However, in many other cultures, a face-to-face meeting is important in order to build the personal rapport essential to establishing a business relationship (Elashmawi and Harris 1993).
Figure 2.9  Communication pattern of Western negotiators

<table>
<thead>
<tr>
<th>Establishing Rapport</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Focus on short-time/task orientation.</td>
</tr>
<tr>
<td>- Personal relationship is not as important.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Information Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Communication is brief and direct.</td>
</tr>
<tr>
<td>- Step-by-step approach in information exchange; attempts to learn from negotiation dynamics and actions.</td>
</tr>
<tr>
<td>- Emphasises on fact-findings first and justifies the information related to those facts later.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Persuasion</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Westerners treat this as an important stage of communication.</td>
</tr>
<tr>
<td>- Amend decisions based on the result of persuasion at the negotiation stage.</td>
</tr>
<tr>
<td>- Based on the concepts of opportunism and treat negotiation is a loss or gain deals.</td>
</tr>
<tr>
<td>- Meetings are based on open and goal directed atmosphere.</td>
</tr>
<tr>
<td>- Putting pressures on the other party.</td>
</tr>
<tr>
<td>- Space orientation.</td>
</tr>
</tbody>
</table>


Exchanging information

Most Westerners come well prepared to exchange information in order to close a deal. In the Western context, information is given briefly and directly toward achieving the deal's objectives.

Following their presentation, most Westerners will put forward their terms. They usually present the minimum package that their clients would consider satisfactory, but it may not meet all of their clients' terms (Elashmawi and Harris 1993).

Persuasion

Many Westerners are persuaded by the opportunity to make a good deal during this stage. Since the short-term goal of closing the deal is most important, the tone to be used will be one of urgency and strong persuasion techniques.

During negotiations, time pressure is often applied by the use of a deadline. In order to force a decision, Americans may offer a price concession, valid only for a limited time. The Western time frame is much tighter than it is in other cultures. Also, Western companies rely on their product uniqueness to win orders. For example, American companies frequently rely on their advanced technology or brand name of their products as a means of leverage without fully considering other cultural factors (Elashmawi and Harris 1993).
The Western communication process is summarised in figure 2.9 above.

The findings of Elashmawi and Harris’ (1993) communication pattern:

- They have highlighted a step-by-step communication process that is transactional and show that the communication process finishes when the deal is closed; and
- Their findings imply that the relationship between the two negotiating parties is a working relationship to carry out negotiation commitments agreed after the communication is finished.

The limitation of Elashmawi and Harris’ (1993) communication pattern:

- When Westerners directly apply this communication process in a cross-cultural environment, there will be a cultural misunderstanding and possibly a cultural clash.

2.3.4.3 Cultural Training

Noting the cultural differences and the differences in communication pattern between different cultures, numerous training programs have been developed in the West to help international negotiators to operate in a cross-cultural context. These training programs typically emphasise the provision of guidelines on variables in the communication process in the international context. These variables include language skills, concept on space, concept on time and body languages of different culture. Language skills include not only the foreign language but also its cultural aspect. Space concept involves a study of different cultures’ contact behaviours. For example, most Middle Eastern persons prefer close contacts before serious negotiations begin. Time concerns about different cultures’ concept on urgency. For example, Latin American will have a lower urgency priority. Body language involves a study of the non-verbal communication signals. For example, scratching one’s head or drawing in breath and saying “saa” are common Japanese responses to embarrassment (Harris and Moran 1993). The piecemeal training in different cultural aspects is fine in giving more knowledge in a particular culture. Surely all cultural training programs are not designed according to the designers’ own cultures when their goals is to make people aware of other cultures, however, limitations in these training programs do exist because they are designed from the designers’ own perspective. Figure 2.10 shows a large U.S. firm’s cultural training program on managing climate that is provided by a large U.S. company.
Figure 2.10  A training program of managing climate

Managing Climate

Behaviours that help build a trust climate
- Express your doubts, concerns and feelings in an open, natural way. Encourage your subordinates to do so also.
- When subordinates express their doubts, concerns and feeling, accept supportively and discuss them thoroughly.
- Set honesty as one standard that will not be compromised. Demand it from yourself and from your staffs.
- Be clear about our expectations when assigning work or eliciting opinions. Explain your reasons, wherever possible, behind requests and directions.
- Encourage subordinates to look to you as possible source in accomplishing results, but develop and reinforce independence.
- When something goes wrong, determine what happened, not “who did it.”
- Encourage active support and participation in corrective measures from those involved.
- Share credit for successes; assume the bulk of responsibility for criticism of your unit.

Behaviours that help preclude a trust climate
- Look on expressions of feeling and doubts as signs of weakness.
- Be sarcastic, but cleverly so.
- Let your subordinates know that you expect them to “stretch the truth” a little if it will make the organisation look good.
- Be secretive. Never let them really be sure what’s on your mind. This keeps them on their toes.
- Discourage subordinates from coming to you for help. After all, they should be “stem-winders” and “self-starters.”
- When something goes wrong, blow up, hit the ceiling, and look for the guilty party.
- Gossip about and disparage others on the staff when they are not present. Over-respond to casual comments by others about your people.
- Take credit for successes. Plan vendettas and other ploys to make the organisations look bad. Draw on subordinates for carrying these out. Always insist on plenty of documentation to protect yourself.


As shown, the limitation of universality exists in the above training program. A full description on the limitation is not the purpose of this thesis; therefore, an example will be used to show this limitation. It is stated that an open and natural expression of doubt, concern and feelings would facilitate a climate of trust. This may be so from a Western perspective, but it might become a barrier to effective communication in the Middle East. Middle Eastern persons are sensitive, especially when it comes to the expression of doubt and concerns in an open manner, in a non-familiar setting. Middle Eastern persons cherish honesty, but tact is extremely important when expressing doubt. This could be viewed as disagreement or disharmony, which might cloud the trust climate between persons. Middle Eastern persons are generally very temperamental, and therefore try to avoid arguments. Once there is an argument, it tends to be heated because each one in the discussion wants to be right (Harris and Moran 1993, 51).

The findings of the cultural training program:

- It provides useful cultural tips according to a set of cultural variables that include language skills, concept on space, concept on time and body languages of different culture.

The limitation of the cultural training program:
They display the assumption of universality. As Harris and Moran admit (1993, p50): "the Managing Climate Program is based on the American assumptions and priorities and are often not compatible with the assumptions and priorities of other cultures."

2.3.4.4 Summary of negotiation culture

Hofstede (1984, 1991) provides a framework that helps our understanding of the cultural differences in a global perspective. The dimensions included in his framework are power distance, individualism, masculinity, uncertainty avoidance and long-term orientation. The indexes of these five dimensions on over 40 countries have also been computed. Hofstede (1984, 1991) contributes to the negotiation literature by recognising a global perspective in cultural comparison across different countries. His works also imply that the theories and models mainly developed in Western countries cannot be directly applied to different cultures because of their lack of cultural perspective. However, the operationalization of these five dimensions into a specific culture remains unknown.

Harris and Moran (1993) argue that cultural differences identified by Hofstede (1984, 1991) result in unique communication pattern in a particular culture. They have proposed a communication model that includes three stages 1) establishing rapport 2) exchanging information and persuasion. They note that Westerners intend to internalise the transaction concept into the communication pattern. Western negotiators don't want to waste time to establish rapport other than exchanging business cards; they exchange concise information with their counterparts, and they persuade them on the basis of providing superior technologies, good brand names etc. Westerners put less emphasis on establishing personal relationships and urge business relationships once negotiation finishes. Western negotiators believe that they should establish a transaction first and then a relationship will follow. The communication model establishes a step-by-step approach in business communication but its application in cross-cultural context is limited because the cultural factors are not included. For example, the Chinese believe one should build the relationship and if successful, transactions will follow (Ambler 1994).

In recognising the needs of cultural awareness, Westerners, especially Americans have developed cultural training programs to help their managers to operate in a cross-cultural or international context. These training programs provide knowledge on various cultural variables such as language skills, concepts on space, concept on time and body language of different cultures. However, these training programs are limited in their nature of universality and their designers structure their cultural programs according to their own assumptions and priorities. These assumptions and priorities are often not compatible with the assumptions and priorities of other cultures.
2.3.5 Summary of Western exchange paradigm

The Western literature of exchange related to international joint venture negotiation at four levels, i.e. the environmental level, the organisational level, the negotiation process level and the cultural level were reviewed in sections 2.3.1 to 2.3.4. This section is to provide an overall summary of this exchange process to the readers so that the readers have a total concept on international joint venture negotiation from a Western perspective.

The Western joint venture negotiation process starts from a firm’s consideration of a potential country candidate’s environment. The Western OMF/ TCA/ EA approaches of environmental context evaluation as identified in section 2.3.1 use universal marketing theories and models on market identification. They emphasise a firm’s employment of different criteria in analysing the country candidate for joint venture establishment. These approaches contribute to the negotiation literature by firstly providing explanations to a firm’s internationalisation process that is opportunistic in nature. Their concept of opportunism is either based on cost (TCA), financial benefits (OMF approach) and matching/level of control analyses (EA approach). Secondly, they explore a universal and systematic approach on determining the market entry process. Finally, they recognise that joint venture is an effective way to allocate resources of two partnering firms.

After a country is identified based on the environmental context analyses, the international firm will evaluate its own and its potential partner’s organisational context and attempt to determine a strategic plan for the joint venture that fit the requirements of both partners. The evaluation is based on the value chain concept, the business strategy concept and the joint venture strategic planning concept.

After the firm establishes a preliminary strategic business plan, it will enter into negotiations with its partner. The Western concept of negotiation recognises that negotiation is a stage-wise goal-directed resolution process. These stages are 1) the pre-negotiation stage, 2) the formal negotiation stage, and 3) the contract signing stage. The relevant literature review can be found in section 2.3.3.

The Western literature notes the importance of culture in an internal negotiation joint venturing context. The Western literature on culture is mainly based on Hofstede’s (1984, 1991) identification of five cultural dimensions i.e. power distance, individualism, masculinity, uncertainty avoidance and long-term orientation. The analyses of the Western country indexes determine that the West and the Chinese have cultural differences in power distance, individualism and the long-term orientation dimensions. Relevant literature review can be found in section 2.3.4.

The conceptualisation of Western joint venture negotiation paradigm is presented in figure 2.11.
**Western View of Contractual Exchange on Joint Venture Negotiation**

**Western negotiation paradigm**

- Environmental Context:
  - OMF approach
  - TCA approach
  - EA approach

- Organizational Context:
  - Value Chain Concept
  - Business Strategy
  - International JV Strategic Plan

- Negotiation Process:
  - Business approach
  - Psychological approach
  - Economic approach

- Cultural Context:
  - Cultural dimensions
  - Communication Pattern
  - Cultural training

**Strategy**

- Environmental strategy:
  - Financial benefits
  - Cost
  - Specific country advantage

- Organizational strategy:
  - Internal Linkage of resources
  - Strategic synergy
  - Customer value

- Negotiation process strategy:
  - Pre-negotiation stage
  - Negotiation stage
  - Contract signing

- Cultural strategies:
  - Recognition of cultural differences
  - Training in cultural knowledge
  - Transaction first, relationship later

**Contractual relationship**

- After the consigned is signed, partnership relationship is started to implement the contract.

---

**Figure 2.11 Western View of Exchange on JV negotiation**

The Western JV negotiation paradigm drives the formulation of strategies on environment context, organizational context, negotiation process and cultural context analyses. The whole negotiation effort results in the formulation of the JV contract. After it is signed, partnership relationship starts.
2.4 CHINESE VIEW OF RELATIONSHIP EXCHANGE PARADIGM

The Western Exchange Paradigm on joint venture negotiation is comprehensive in a sense that it has theories in the four contextual areas i.e. the environmental context, organisational context, the negotiation process and the cultural context to help negotiators in a joint venture negotiation situation. However, the main limitation of these theories is the implicit assumption of universality. This assumption has heavily been criticised by Graham et al (1986) when they studied negotiation of four cultures in an intra-cultural environment. Again, Wong (1998) disapproved this Western universality assumption in his study of relationship marketing in China. Numerous scholars have emphasised the dynamics of relationship in Sino-foreign joint venture negotiation, (Brunner et al 1989, Brunner and Taoka 1977, Brunner and Wang 1988, Brunner and Koh 1988, Pye 1982 and 1986, Lee and Lo 1988, Leung et al 1995, Leung et al 1996, Wong 1998, Tsang 1998). Ambler (1994) has openly advocated the term "relationship" as another marketing paradigm in the Chinese context. All these authors have recognised the need to study joint venture negotiation in China from a "relationship" paradigm.

In order to establish the theoretical grounding of the "relationship" paradigm in Chinese joint venture negotiation, the author will review, in this section, Chinese theories according to the four negotiation contexts that were established in chapter 1, i.e. environmental context, organisational context, negotiation process and cultural context. The findings of four Chinese contexts will be subsequently compared to those of the Western paradigm to show the need for a comprehensive model in Sino-foreign joint venture negotiation.

2.4.1 Chinese view on environmental Context

China is essentially a centrally planned (Chiu et al 1991) and developing economy (Beamish 1993). These unique features of the Chinese economy pose a challenge to many foreign negotiators because their assumptions underlying the formation of joint ventures in China would not be the same as those underlying joint ventures in developed countries or in market-economy developing countries (Ruggles 1983, Shenkar 1990, Austin 1990, Baugarten and Rivard 1991). For example, the Western assumption of profitability was found inappropriate in a Chinese environmental context because technology transfer is perceived to be more important (Beamish 1993).

Hunger and Wheelen's (1993) strategic management framework is used to review China's economic, social, political/legal, and technological context to determine the rationale of its State-owned Enterprises negotiating joint ventures with foreign firms.
2.4.1.1 Economic Context

Since 1974, the Communist Party leaders have been directing China towards its long-term national goal in its “four modernisations” program, the modernisation up to world standards of agriculture, industry, science, and national defence by the year 2000. At the Third Plenary Session of the Eleventh Central Committee of the Communist Party in December 1987, Deng Xiaoping restated that the primary national objective of China was to achieve this ‘Four Modernisations’ economic reform program (Kaiser et al 1996). Chinese authorities also recognised that the only way to pursue this ambitious goal was to attract Foreign Direct Investment (FDI) which would provide the capital, the management skills and the technology that was lacking. The Chinese government attempts to use an economic model that actively integrates the market mechanism while maintaining overall control of the economy (Luo 1988, Pearson 1991).

The modernisation drive has initiated FDI to grow in a particular direction and to concentrate on certain forms of investment. According to Kaiser et al (1996), up to the end of 1994, 74.1% of FDI is concentrated in industrial development in term of number of projects. The Chinese government believes that the approval for these industrial development projects can contribute to the improvement of science and technology, the modernisation of technologically out-dated State Owned Enterprises (SOE), the streamlining of the industrial structure and the updating and upgrading of product qualities in China generally (Sun, 1994). In addition to the industrial concentration, Kaiser et al (1996) recognise that there are three distinctive types of FDI in the People’s Republic of China (PRC), namely the Equity Joint Venture (EJV), the Contractual Joint Venture (CJV), and the Wholly Foreign-owned enterprise (WFOE).

The EJV has a separate legal status and takes the form of limited liability according to China’s law on Sino-foreign EJV. The CJV subsumes a variety of arrangements whereby the Chinese and the foreign partners co-operate in joint projects and business activities according to the terms and conditions stipulated in a venture agreement. In contrast to the EJV, the CJV does not necessarily require the creation of a new legal entity. The CJV can take any form of agreement and provides therefore more flexibility in negotiation than the EJV. The WFOE is a venture without any contribution from a Chinese partner. It is financed and managed solely by the foreign investor. Foreign investors have been accepting this mode with caution for two reasons. 1) The Chinese government requires a foreign owned venture to export 50% of its production, thus reducing the foreign party’s opportunity to penetrate the Chinese market. 2) The Chinese government has not been perceiving WFOE as transferring significant amounts of technology or management skills to China, and therefore the Chinese government refused to approve WFOE until 1986 (Kaiser et al 1996). Therefore, the development of this form of FDI has been limited (Deamer 1996).

The Chinese government attitude on WFOE has suppressed its development in China. As a result, EJV and CJV have been the major forms of FDI in China. In term of project numbers, EJV and CJV
contributed 78.9% of total number of FDI in China for a 16-year period ending 1994. The actual capital inflow of all FDI into the Chinese market was US$ 95 billion dollars in the same period (Kaiser et al 1996).

The growth of EJV and CJV does not mean that foreign businessmen can freely choose their investment area. According to Sum (1996), the Chinese government will not approve a joint venturing item if:

1. The technology associated with that joint venture already exists in the Chinese market;
2. The product demand can be satisfied by existing domestic production;
3. The joint venture involves the exploitation of Chinese natural resources, e.g. minerals, petroleum etc.; and
4. The joint venture involves an infrastructure area that is regulated by the Chinese government. For example, telecommunication, transport and shipping are only some examples.

The literature is summarised in the following findings and limitation section.

The findings of the Chinese economic context:

- The economic growth in China has been driven by the “Four Modernisations” economic reform program; and
- Equity and Contractual Joint Ventures (EJV and CJV) are major forms of FDI in the Chinese economy because they contribute to the development of science and technology, the modernisation of technologically out-dated State Owned Enterprises (SOE), the streamlining of the industrial structure and the updating and upgrading of product qualities in China generally;

The limitation of the Chinese economic context:

- The Chinese government does not encourage market competition in a planned economy. The Chinese government will not approve establishment of a joint venture to produce a particular type of product if existing manufacturers can satisfy demand for that type of product. This limits foreign negotiators’ putting competitive elements on the joint venture marketing plan in domestic market.

2.4.1.2 Cultural/social context

Leung (1998) indicate that this cultural/social system reflects the work of Confucius that emphasises on harmony and hierarchy.

2.4.1.2.1 Harmony and hierarchy

The principle of harmony implies aspirations toward conflict-free group based systems of social relations (Shenkar and Ronen 1987). Confucius used the important terms of “jen” and “lun” to signify the ideal of mankind in society (Kam 1993). The word “jen” means moral excellence in interpersonal relationships. “Jen” emphasises self-education and analysis. It advocates the relative importance of knowing others and the relative unimportance of being known (Lin 1939). This would explain why the Chinese are so attentive to discern the interests and personalities of visiting negotiators, indeed the myriad of questions which are considered frustrating by overseas visitors. It also resolves why Chinese negotiators are defensive about freely disseminating information about themselves.

“Lun” means the proper positioning of mankind within the social and political hierarchy (Lin 1939). Generally there are five “lun” in a classical Confucian society. They represent the relationship between ruler and subject, father and son, husband and wife, elder brother and younger brother, friend and friend. A Confucian gentleman is a social man performing with perfection these five fundamental relationships (Deverge 1986). The theory of Confucius is to create a harmonised society in which every person knows and stays in their proper position. The practice of paternalism is the highest ideal in the Chinese political system (Pye 1992).

The findings of the Chinese cultural context:

The study of Chinese cultural context reveals the following findings:
- The Chinese emphasise “jen” and “lun” which are the fundamental concepts of their positioning theories of harmony and hierarchy; and
- The theories of harmony and hierarchy emphasise relationships.

The limitation of the Chinese cultural context:

- It is contradictory to the Western concept of individualism and power distance that the author of this thesis mentioned in section 2.3.4.

2.4.1.3 Political/legal context
The last two sections were concerned with the economic and cultural context in China; this section is to review the political/legal context in China from its political administrative structure and legal administrative framework.

2.4.1.3.3 Political administrative structure

Chiu et al (1991, p44) and Lewis (1994, p182) have a description of the Chinese political/government administrative structure which is reproduced in figure 2.12.
Figure 2.12  Simplified Administrative diagram of the People's Republic of China
A simplified administrative structure diagram to show the relationships among the Communist Party of China, the CPC National Congress, the NPC National Congress and some selected government departments at state level which is the minimum requirement to understand foreign joint venture in China, and the National People's Congress.
- The constitution and statutes are formulated by the CPC National Congress that is supervised by the CPC, rubber stamped by the National People's Congress and subsequently implemented by the State Council.
- The above government authorities at State level and the National People's Congress are replicated at provincial, city, county and village levels, in that order. Detailed functions of these authorities can be found in sections. Some autonomous regions and cities have approval status identical to province. These autonomous regions are Xinjiang, Inner Mongolia and Tibet. Cities are Beijing, Tianjin and Shanghai.
- Foreign joint venture approval limits: Province (up to U.S. 30 million);

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A) Communist Party of China (CPC) political administrative structure

The structure of the Communist of China (CPC) can be thought of a huge segmented pyramid with the Communist Party of China (CPC) Standing Committee and the Politbureau at the top segment supported by the Military Affair Commission (MAC). The MAC supervises the CPC Central Committee that is responsible to elect the members of the Politbureau. Members of the CPC Central Committee are nominated by the CPC National Party Congress. The pyramid is hierarchically structured in a way that the members at senior level of the congresses are nominated by the member at a level below it. The hierarchical levels are State, province or equivalence, city, county, and prefecture. There were 50 millions CPC members in 1989 (Chiu et al 1991).

The source of power on formulation of economic and legislative policies lies with the Politbureau that is supported by the Communist Party of China and a 12-member team of Secretariat. The Politbureau is a 'quasi-cabinet' that consists of 25 members who meet once a week and discuss the day-to-day running of the country. The Standing Committee within the Politbureau is the "inner cabinet" that comprises of five members i.e. the Secretary General (the Party's official head i.e. Chairman Mao and Deng Xiao-ping were Secretary General), the Premier, the State President, the Chairman of the Military Affair Commission, and the Chairman of the Central Commission for Inspecting Disciple. These five "inner cabinet" members are the real authorities ruling the country (Chiu et al 1991). The CPC Standing Committee and the Politbureau are supported by the Military Affairs Commission which also have representatives in the CPC National Party Congress.

A new National Party Congress of delegates is supposed to be re-elected every five years, but in practice the terms have varied widely. Between 1945 and 1969, the congress was convened on three occasions. Its meetings now tend to be little more than showpieces because most decisions have been made prior to the meeting, the meeting itself merely providing the forum for unanimous ratification on all the planning and legislative decisions made by the CPC Standing Committee/Politbureau.

B) National People's Congress (NPC)/Standing Committee

After the National Party Congress formulates the planning and legislative policies, these policies will be discussed and ratified by the National People's Congress which is equivalent to the function of a parliament in a Western country. The People's Congress is hierarchically structured similar to that of the CPC National Party Congress. There are People's Congresses at State, province or equivalence, city, county, and prefecture. The function of a lower level congress is to elect members for a congress at a level right above it. The members at the lowest level congresses are recommended by people who are pre-selected by the CPC.

As mentioned, the National People's Congress will discuss and ratify on an annual basis the economic plans and legislative policies proposed by the CPC National Party Congress. In theory, these two
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Congresses are the highest authorities in proposing and enacting the economic planning and legislative policies that will be formulated into laws subsequently. However, in practice, the National People’s Congress is a rubber-stamping organisation (Chiu et al, 1991). First, it is supervised by the State Military Committee (SMC) which reports to the State Council and the CPC Standing Committee/Politbureau. Naturally, they will not object the economic plans and legislative proposals presented by the CPC National Party Congress. Second, the National People’s Congress (NPC) is held shortly after the CPC National Party Congress, and therefore the members of the NPC will not have sufficient time to disguise the economic plans and legislative proposals. Therefore, they will automatically approve all the proposals.

C) The State Council

After the enactment of the planning and legislative policies and law formulation, the State Council is responsible for the administration of the laws with respect to these economic plans and legislative policies. The State Council is responsible for the formulation of these laws into more detailed regulations and administers these regulations to its ministries.

The State Council is the highest authority concerning the administration of the country. It coordinates and controls the republic’s public sector. All departments and Ministries, and their provincial offices, are ultimately answerable to the State Council. The members in the administrative cabinet of State Council are exclusively high-ranking members of the CPC Central Committee. The State Council issues regulations in a broad sense. More detailed administrative rules are developed and issued by individual ministries after they receive the broad regulations in their specific areas (Chiu et al, 1991).

D) Government Ministries and local ministries

The ministries at State level are directly supervised by the State Council. These ministries receive the broad directional regulations from the State Council and intend to follow the 5-year economic plan to develop detailed administrative rules associated with these regulations in their own areas (Chiu, 1991). For example, the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) is responsible for formulating and implementing regulations related to foreign trade and investment, and drawing up and implementing plans related to foreign trade and investment (Lewis 1994). The implementation of these administrative rules and regulations is basically bureaucratic in nature. The ministries at lower levels would follow the administrative rules and regulations and formulate local regulations that are appropriate to local conditions. However, the local regulations cannot contravene any higher order form of legislation or the State has the power to annul them (Chiu et al, 1991).

The purpose of arranging the Chinese political/government administrative structure in the above format is twofold. The ministries at State level process the authority to administrate the laws and

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regulations to the ministries at the lower levels. The lower level ministries have the power to adapt the rules and regulations into finer regulations which are appropriate to local situations so long as these regulations do not deviate from the broad laws and regulations setting by the top authorities (Pye 1978). Chiu et al (1991) labelled this arrangement as 'social harmonisation'.

In summary, the CPC dominates the whole government administrative structure. The CPC formulates the policies and laws that will be enacted by the National People's Congress. The ministries at State level formulate rules and regulations in a broad context according to these policies and laws and allow lower level ministries to interpret these rules and regulations into local regulations so long as these regulations are not in conflict with the central government. This arrangement allows authority and harmonisation to happen in the Chinese society simultaneously.

The findings of the political structure in China:

- The political structure is dominated by one powerful authority, i.e. the Communist Party of China (CPC);
- The CPC administers the country through the State Council by issuing broad economic plans and legislative policies and laws via the National People's Congress to the ministries at State level, and these ministries further refine them by formulating more detailed rules and regulations;
- The laws, therefore, are placed at a higher than the regulations of the State Council and rules at lower levels;
- These rules and regulations are further interpreted by local ministries who formulate them into detailed regulations according to local conditions;
- This top-down political administrative structure permits authority to be hierarchically ordered and yet allows harmonisation to exist at the local community level; and
- The determined relationship between laws, regulations and rules means that the regulations at lower level cannot override the laws above them.

The limitation of the political structure:

- The delegation of authority to the lower level does not mean that local government organs are efficient in their operation (Lewis, 1994); it simply means an extension of this bureaucratic nature to the lower level if the local government cannot reduce their bureaucratic red tape. In a survey conducted by the American Chamber of Commerce in Hong Kong, 70% of the respondents recognised that bureaucracy is a major obstacle for their business development in China (Anonymous author, Hong Kong Economic Times, 5/12/97).

2.4.1.3.4 Legal framework for foreign joint venture establishment
The Chinese political administrative system is bureaucratic in nature. The bureaucratic system and the centrally planned economy initiate a set of complicated procedures to establish foreign joint ventures in China. Cook (1996) thoroughly discussed the legal framework related to joint venture establishment and its characteristics in China see figure 2.13.

Figure 2.13  
Legal procedures for JV establishment

The necessary bureaucratic procedure for joint venture establishment in China.
* some organisations prefer to sign the letter of intent after formal negotiation.
When a foreign firm determines to invest in China, it needs to identify a potential partner in the PRC. First, it can approach this market by itself, if this firm has existing business connection in this market. Second, it can go through a 'guanxi' person who has ample business connections and identified a potential partner. Finally, this foreign firm can contact some middle organisations. They are official Chinese agencies that help the Chinese government to procure foreign capitals. For example, the China International Trust and Investment Corporation (CITIC) is one of the window companies that specialise in attracting foreign capitals into China. In any case, if this foreign firm wishes to operate in an industry that is driven by the four-modernisation program, it must contact the Ministry of Foreign Trade and Economic Co-operation (MOFTEC) according to Chinese law because the business category may affect the infrastructure of the country.

After firms identify potential partners, they normally sign a letter of intent that signifies the intention of both parties to start negotiation. In the meantime, they jointly draft the joint venture business proposal. It is the Chinese party’s responsibility to submit the project proposal to secure a listing on the economic development plan and obtain initial approval from either local MOFTEC entrusted offices or Central MOFTEC depending upon the size of the joint venture under the PRC central planning policy. If the project size is under US$ 30 million, the business proposal should be permitted by the local MOFTEC entrusted offices. If the size is over US$ 30 million, it must be approved by the State MOFTEC.

After the joint venture business proposal is approved, feasibility study must be jointly conducted by both the foreign and Chinese organisations to justify the project’s economic contribution within the Chinese socialist economy. This proposal needs to be endorsed by the relevant ministry and the Ministry of environment and health. The initial approval on the joint venture formation is the first stage of the government approval.

After all the above procedures listed above are carried out, formal negotiation can start regarding the finer details of the joint venture. If both parties agree to proceed following the negotiation, they must submit the amended project feasibility study to the relevant MOFTEC office and the State Planning Commission for initial approval on the recognition of its economic contribution to the Chinese socialist economy. This is the second stage of official government approval.

After the feasibility study is approved by the government authorities and the structure of the joint venture is discussed between the two parties, the two joint venture parties will sign a contract. The number of contracts signed for a joint venture increases when the nature of that joint venture becomes more complex. In a technology transfer joint venture, the joint venture partners will sign a technology transfer contract, an intellectual property right transfer contract and the business contract. These contracts together with the Article of Association will be submitted to relevant MOFTEC office for final approval. This is the third stage of the official government approval.
The decision for MOFTEC office to approve the joint venture will be made within 45 days. This second stage of formal approval will accompany with a business license and number. The joint venture partners must register their business license with the State Administration for Industrial and Commerce (ASIC) for the country business administrative purpose. After the license is endorsed by the ASIC, the joint venture is officially established. However, the joint venture needs to establish a bank account, register with the taxation Department and the Customs Department before they can conduct business. This is the final stage of the government approval.

In summary, the bureaucratic procedures to establish a joint venture in China is a long process that can be divided into stages according to the department involved as indicated in figure 2.13. These procedures are complex and require careful handling by both foreign and Chinese partners. Joint venture negotiation may collapse if both parties do not process a Problem Solving Attitude (PSA) to handle these procedures.

The findings of the legal framework for joint venture establishment:

- The establishment for joint venture in China is a long process that involves numerous government departments and a lot of documentation. As indicated, this process can be divided into four stages according to the documents submitted to the relevant authorities.

The limitations of the legal framework for joint venture establishment:

The legal framework for joint venture establishment has the following limitation:

- The bureaucratic red tape slows down the approval process and the criteria for project approval are very complex (Ching 1997); and
- The whole approval process is long and the negotiation for a particular venture may collapse if the joint venture partners do not have a Problem Solving Attitude (PSA) in handling the procedures respectively.

2.4.1.4 Technological context

One of the national objectives emerging from the “Four Modernisations” program has been the promotion of technology transfer from the Western world to China in order to upgrade its products and services to international level (Pomfret 1991). Joint venture is the most appropriate mode of technology transfer because it associates the foreign partner and its Chinese partner for a considerably long period of time so that the Chinese partner can learn the non-tacit and tacit knowledge from the foreign partner (Tsang 1993). Non-tacit knowledge mainly involves designs, specifications, and
drawings while tacit knowledge is concerned with the managerial skills of that technology to manage the technology. These two areas of technological context will now be reviewed.

Non-tacit knowledge

To transfer the tacit knowledge, technical specifications of a technology must be vigorously followed. However, the serious problem for a high-tech producer is that the required inputs may not be available in China. Even if they are available, local suppliers may not be able to deliver on time and the product quality may fail to meet the stringent standards demanded by high-tech production (Tsang, 1993).

The reason of sourcing material input locally is due to the limitation in the foreign exchange system (Tsang, 1993). The inability of converting Rmb to hard currency has been forcing the Sino-foreign joint venture to use RmB to buy local supplies on the one hand, and to reserve their foreign exchange for supplies that are absolutely necessary to be imported from overseas. This limitation will persist until the Chinese government internationalises Rmb as a trade-off for China to enter the World Trade Organisation (WTO) (Li et al, 1996a). At that time, the Sino-foreign joint venture can move its foreign exchange freely between China and overseas market.

Tacit Knowledge

The first problem of transferring tacit knowledge is delayed by the difficulties in recruiting qualified technical and managerial staff (Tsang, 1993). For instance, it took 2 years before Liming Cosmetic Co. Ltd. could get one engineer (Mayer et al, 1990). Shanghai Bell Telephone Equipment Manufacturing Co., in an attempt to tackle the shortage of engineers, scoured universities to sign up students near to graduation (Westlake, 1993). The recruitment problems remain a hindrance to technology transfer.

The second problem of transferring tacit knowledge is the Chinese concept of management. As quoted from an article (Anonymous author, Business China 9/3/92, p.9):

“Once installed, the Chinese enterprises used the new production equipment, but under old management practices. Failure to understand and maintain the equipment properly and to upgrade employees’ technical skills resulted in problems.”

In summary, the modernisation program of the Chinese government has encouraged the transfer of technology into the Chinese market through Sino-foreign joint venture. However, the process of transferring Western technologies into China has been hindered by the problem of material procurement and logistic arrangements in the non-tacit area. In addition to the non-tacit problems, the
Sino-foreign joint ventures have also been facing problems that include difficulty in recruiting management personnel and the application of old management concepts on modern technologies.

The findings of the technological context:

- The Chinese government encourages the establishment of Sino-foreign joint ventures so that Western technologies can be transferred into China.

The limitations of the technological context:

- China lacks of material supply to support the production of hi-tech products;
- The import of necessary materials from overseas is being hindered by the lack of foreign exchange;
- Lack of management personnel to manage modern technology; and
- Outdated management concepts hinder the speed of technology transfer.

2.4.1.5 Summary on Chinese environmental context

Economic Context

The Chinese government modernisation-drive initiates development of Foreign Direct Investment (FDI) in China especially in the forms of Equity and Contractual Joint Ventures (EJV and CJV). These joint ventures concentrate on the industrial sector of the economy because of their contributions in improving technologies, overall product qualities and management of outdated State Owned Enterprises. Besides the concentration in the industrial sector, the investment areas of these EJV and CJV must be in accordance with the guidelines of the Chinese government that has been implementing a planned economic model.

Cultural context

The study of Chinese cultural context reveals that the Chinese emphasise on “jen” and “lun” which are the fundamental concepts of their positioning theories of harmony and hierarchy. Harmony and hierarchy emphasise relationships and form the basis upon which Chinese people interact. In this context, the Chinese relationship concept is contradictory to the Western concept of individualism and power distance.
Political/legal context

The CPC dominates the whole government administrative structure. In 1989, there were approximately 50 million CPC members (Chiu et al, 1991). The CPC formulates the policies and laws that will be enacted by the National People’s Congress. The ministries at State level formulate rules and regulations in a broad context according to these policies and laws and allow lower level ministries to interpret these rules and regulations into local regulations so long as these regulations are not in conflict with the central government. This arrangement allows authority and harmonisation to happen in the Chinese society simultaneously.

The CPC domination and their determination to reform the Chinese economy through the “Four Modernisations” program means that the Chinese government must establish a set of procedures to handle Sino-foreign joint venture applications. However, the bureaucratic system of establishing a joint venture in China is a long process. The procedures within this system are not only complex but also require tight co-operation and careful handling by both foreign and Chinese partners. Joint venture negotiation may collapse if both parties do not process a Problem Solving Attitude (PSA) to handle these procedures.

Technological context

The economic reform through the “Four Modernisations” program of the Chinese government has encouraged the transfer of technology into the Chinese market through Sino-foreign joint venture. However, the process of transferring Western technologies into China has been hindered by the non-tacit problem of material procurement and logistic arrangement. In addition to the non-tacit related problems, the Sino-foreign joint ventures have also been facing tacit problems. These problems include difficulty in the recruitment of management personnel and the applications of outdated management concepts on modern technologies.

The non-tacit problem of domestic sourcing may be released when the Rmb is internationalised whilst the non-tacit problems of human resource recruitment and modernisation of management concept may be alleviated through the provision of management training programs in China.

As shown, the Chinese view of the environmental context is completely different from the Western view of the same. Therefore, a foreign firm has to perceive the influence derived from the Chinese environmental context. The research question, therefore, is:

**Research question no 1:**

What economic, political/legal and technological factors would influence the joint venture (JV) negotiation process?
2.4.2 Chinese view on organisational context

Section 2.4 presented the environmental influence on foreign firms when they enter the Chinese market. This section reviews the organisational context in a Chinese environment. The Chinese organisational context is determined by the forms of Chinese organisation, the relationship building process between foreign firms and Chinese firms, and the communication pattern in that relationship building process.

2.4.2.1 Forms of organisation

There are three organisational forms in China, i.e. the State-Owned Enterprises, Collectively-Owned Enterprises and Private Enterprises (Wang, 1993).

A) State-Owned Enterprises (SOE)

These companies were treated as part of the state or the government until the late 1980s. Each organ of central government had a number of state companies. Their affairs ranged from personnel, procurement of materials, production, marketing, budgeting, allocation of funds, etc., and were tightly controlled by the government organ. Government control of this nature naturally resulted in inefficient productivity of the state companies. Most of the state companies became non-competitive in the late 1970s and 1980s once the elements of market economy were introduced into China.

As mentioned in the economic context section, the “Four Modernisations” program has been the driving force in China’s economic reform (Campbell 1989). Naturally, the upgrading of the productivity of these SOEs becomes important in response to the Central government’s call for such economic reform. To provide more flexibility to the SOEs in their operating conditions, the State Council promulgated the ‘Regulations for Converting the Status of the Enterprises Owned by the Whole People’ on 23 July 1992 to implement the Industrial Enterprise Law established by the National People’s Congress on 1st August 1988. Its main purpose is to separate the Government from the SOE, so that a SOE has the right to “make its own managerial decisions, take full responsibility for its profits and losses and practice independent accounting” (Wang 1993, p.152). With regard to the property of a SOE, it is stipulated that the property is owned by the whole people “the State” but is managed and operated by the SOE in accordance with the authorisation of the State (Wang, 1993). The regulations allow SOEs to have more flexibility to make decisions regarding merger or the formation of an association with another entity or investment in a project or an entity.

Another important feature of the ‘Regulations for Converting the Status of the Enterprises Owned by the Whole People’ is that it does not mention the SOE mandatory function to fulfil the State plan in production (Wang, 1993). It is because a mandatory production clause in the regulations will be in
conflict with the “Four Modernisations” and the reform to socialist market economy in which an organisation is supposed to produce freely. However, because the regulations are lower in hierarchy than the Industrial Enterprise Law, reflecting this mandatory requirement, this clause is silent within the ‘Regulations for Converting the Status of the Enterprises Owned by the Whole People’.

The implication of this regulation is that a SOE can engage in a joint venture with a foreign firm to produce goods and services, but it also needs to fulfill the State’s mandatory production requirement at the same time.

B) Collectively-Owned Enterprises (COE)

COEs are an important sector of the Chinese economy. A COE can be formed by a State-owned Enterprise to utilise the spare labour resources that are discharged from the State-Owned Enterprise during economic reform. It can also be formed by individuals collectively with State support, if they justify its value of existence in term of employment, profit generation, etc. A collective is supposed to be owned by its members/employees as suggested by its name. Nevertheless, when an employee joins another entity, the employee is not allowed to take away any share of the property according to Chinese laws. In other words, a COE is a state company by default. The terms and conditions are the same with those in State-owned Enterprises (SOE) and therefore, a COE is basically state owned but in a different form (Wang, 1993).

Wang (1993) has identified differences between State-owned enterprises (SOE) and collectively-owned enterprises in three aspects, i.e. procurement of materials and parts, marketing of products, and movement of employees. The differences are summarised in figure 2.14 below:

**Figure 2.14 Difference aspects between State-Owned Enterprises (SOE) and Collectively-owned Enterprises (COE)**

<table>
<thead>
<tr>
<th>Aspects/organisational forms</th>
<th>State Owned Enterprises</th>
<th>Collectively-owned Enterprises</th>
</tr>
</thead>
<tbody>
<tr>
<td>Procurement of materials and parts</td>
<td>- Is entitled to an unlimited supply of all kinds of parts and materials.</td>
<td>- Has access to limited supply.</td>
</tr>
<tr>
<td>Marketing of products</td>
<td>- May market its own products as well as goods not manufactured or produced by itself, with or without the help of the government.</td>
<td>- Marketing rights are limited. A collective is only allowed to market selected categories of products and materials which may not be of important significance to the national economy.</td>
</tr>
<tr>
<td>Movement of employees</td>
<td>- Employees may be transferred throughout the country.</td>
<td>- Employees may only be transferred within the locality and among the collectives.</td>
</tr>
</tbody>
</table>


As indicated in the above table, the COEs have limited access to materials, marketing and employee movement when compared to SOEs. This implies that SOEs have more competitive advantage to form joint ventures with foreign firms than the COEs because of their flexibility in material procurement, marketing and human resource management. COEs, on the contrary, are more
appropriate for foreign firms that want to have only production facilities in China. This finding is consistent with that of Glaister and Wang (1993), i.e. 19 of their 21 sample firms were engaged in broader scale of operations in China joint ventured with SOEs.

C) Private Enterprises

Soon after the establishment of the People’s Republic in 1949, the private sector began to be regarded as evil in China (Wang, 1993). This was due to the exploitation by merchants of the working class as perceived by the Communist Chinese government before 1949. No private enterprise was allowed during the long period of leftist domination between the late 1950s and the late 1970s. After China started its economic reform program in 1978, private enterprises began to emerge and gather strength. Although the government’s hostility toward the private sector has lessened, the private sector is only allowed to perform a supplementary role in the economy. This policy is unambiguously stated in Article 11 of the Chinese Constitution (amended on 12 April 1988) as follows (Wang, 1993, p.161):

“The state permits the private sector of the economy to exist and develop within the limits prescribed by law. The private sector of the economy is a complement to the socialist public economy. The state protects the lawful the lawful rights and interests of the private sector of the economy, and exercises guidance, supervision and control over the private sector of the economy.”

The above constitution indicates that private firms are providing a supplementary role to the socialist market economy that is mainly comprised of the SOEs and COEs. Foreign firms are also subjected to Chinese Government’s pressure to adopt joint ventures with State firms as an entry mode to the Chinese market regardless of the type of industry (Teagarden 1990, Teagarden and Glinow 1991, Beamish 1993). As Beamish (1993, p35) admitted: “While every country sees some level of public sector/private sector joint venturing, the frequency of association with government partners tends to be higher in developing countries. Nowhere is the frequency higher than in the PRC.”

The findings of the Chinese forms of organisation:

- There are three forms of organisation in China, namely the State-Owned Enterprises (SOEs), the Collectively-Owned Enterprises (COEs) and private enterprises. The Chinese government encourages their joint venture with foreign firms;
- Both the SOEs and the COEs are owned by the State but the SOEs have more competitive advantage in the areas of procurement of materials, marketing and human resource management when compared to the COEs, and therefore they are in a better position to form joint ventures with foreign enterprises; and
- Foreign firms also like to select SOEs as their joint venture partners because of their flexibility in the areas of marketing, human resources management, and material procurement;
- Private enterprises play a supplementary role in the Chinese economy and the Chinese government does not encourage them to form joint ventures with foreign firms.
The limitation of the Chinese forms of organisation:

- The restriction of joint venturing with State firms implies that the production from the Sino-
  foreign joint venture is subjected to government scrutiny due to joint ownership of production
  by the Chinese government and the foreign firm. This government scrutiny can help reduce
  market competition as the author mentioned in the economic context section. The restriction on
  market competition limits foreign firms to widely include competitive elements suggested by

2.4.2.2 Relationship building process between foreign and State firms

The forms of Chinese organisation and their roles in Sino-foreign joint ventures were discussed in the
last section. This section is used to determine the relationship building process between foreign and
State firms.

Leung et al (1995) used the interaction model developed by Hakansson (1982) to test the interaction
process in a Sino-Hong Kong environment. The model has four elements:

The interaction process

This is made up of individual episodes. The episodes involve exchange between two parties. They
are (a) product/service exchange, (b) information exchange, (c) financial and (d) social exchange.
The routinization of these exchange episodes over a period of time leads to more concise expectations
in both parties about the norms and responsibilities of the corresponding members. These
expectations become institutionalised to such extent that they may not be challenged by either party
and may have more in common with the traditions of an industry or a market than rational decision-
making by either parties.

The interaction parties

The process of interaction and the relationship will depend not only upon the contents of the
interaction but also on the distinct characteristics of the parties involved. These parties comprise both
the organisations and the individuals.
The interaction environment

The interaction between a buying and a selling firm must be comprehended in a macro environment which consists of market structure, dynamism, internationalisation, position in the manufacturing channel and the social system.

The atmosphere

The atmosphere in the interaction process concerns the relationships among individuals in the buying and the selling firms within the contexts of power-dependence, the situations of conflict or cooperation, the overall closeness of or distance between the two firms, and their mutual expectations.

The main objective of Leung et al.'s (1995) study were to employ the above four interaction elements of the interactive process to test the extent that Hong Kong marketers manage these interactive elements in the negotiation process with their customers in China. A questionnaire was sent to 1,000 firms selected from the Hong Kong classified business directory and 199 completed questionnaires were received.

Factor analysis showed that 3 factors 1) relationship building, 2) understanding of mutual expectation, and 3) facilitating information exchange can improve mutual understanding between Hong Kong firms and their PRC counterparts. The factor analysis result is presented in figure 2.15 below.

Figure 2.15 Results of Factor analyses

<table>
<thead>
<tr>
<th>Item</th>
<th>Loading</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor 1: Relationship building (α = 0.7800)</strong></td>
<td></td>
</tr>
<tr>
<td>We keep in touch with the Chinese counterparts closely.</td>
<td>0.82380</td>
</tr>
<tr>
<td>Frequent co-operation between us reduced much of the problems in our business relationship.</td>
<td>0.81372</td>
</tr>
<tr>
<td>Maintaining a good relationship is the best way to enhance business.</td>
<td>0.77442</td>
</tr>
<tr>
<td>Understand of the culture in the PRC can facilitate business development in China.</td>
<td>0.64460</td>
</tr>
</tbody>
</table>

| **Factor 2: Mutual Expectation (α = 0.6730)** | |
| We fully understand the goals and objectives of the other party. | 0.83099 |
| The Chinese counterpart fully understands our goals and objectives. | 0.81326 |
| We can easily consensus on the major issues. | 0.61523 |

| **Factor 3: Information Exchange (α = 0.6614)** | |
| Exchange market information (e.g. competitors) frequently. | 0.76661 |
| Exchange economic information (e.g. exchange rate) frequently. | 0.75539 |
| Exchange organisational information (e.g. change of management). | 0.74575 |

The above result showed that relationship building is an important strategy for foreign negotiators to deal with their Chinese counterparts. Wong (1997) attributes the relationship phenomena to people’s lack of security in the Chinese history. People only like to deal with someone whom they are familiar with. Foreign negotiators must further understand mutual expectation and facilitate information exchange with their Chinese counterparts to consolidate this relationship building process.

The findings of the Leung et al’s (1995) research:

Their research reveals the following findings:

- Relationship building is important in negotiating Sino-foreign business in China; and
- This relationship building exercise is supported by the establishment of mutual understanding and information exchange between the foreign and the Chinese partners.

The limitation of Leung et al’s (1995) research:

- Their research did not give the “constructs” within their relationship context. In other words, foreign negotiators still do not have a clue of how to build relationship within the Chinese context.

2.4.2.3 Organisational communication level

Leung et al (1995) have identified relationship building is extremely important in negotiating with the Chinese. The Chinese negotiators establish relationship with their foreign counterparts can be cited at two levels, i.e. formal level and private level (Brahm 1995).

A) Formal level

The Chinese negotiators at SOE prefer risk/uncertainty avoidance, and formal contact with these officials requires a lot of patience (Lee and Lo 1988, Brahmb 1995). The risk-avoidance attitude initiates SOE to use the ‘Cardinal Principles’ (Deverge, 1986). The first cardinal principle is “those who do nothing make no mistake” (Deverge 1986, p.51). Negotiators take their protection within the bureaucratic system very seriously if foreign companies approach them. They always request foreign companies to complete mountains of paperwork to eliminate possible mistakes. The second cardinal principle: “the bureaucracy’s main task is to protect the bureaucrats” (Deverge 1986, p.52). The implication of these two principles is that the officials of a SOE are bureaucratic in nature and normally follow the rules and regulations set by the central government (Yang 1959).
B) Private Level

Besides the formal contact level, the Chinese negotiators like to express their personal goals such as a potential position in the new joint venture in some private occasions i.e. banquette (Brahm 1995). They have some specific objectives but they are reluctant to reveal them in formal occasions. The foreign negotiators need to identify them through meeting with the Chinese negotiators at private level (Mente 1992).

D) Communication pattern and levels

Leung et al (1995) recognised that Western negotiators communicate with their counterparts at two levels i.e. business associates and business partners. At the business associate level, each party is testing the other party’s intention. The lack of cultural consideration in the Western negotiators’ communication pattern as mentioned in section 2.3.4.2. implies that they are only pushing to finalise the negotiation. If both parties can accept this kind of communication pattern, they can become business associates. The Chinese, on the contrary, have different communication patterns. When Chinese negotiators meet their foreign counterparts, they intend to make friends with them. Both parties are new friends at this level. However, when they are familiar with their foreign counterparts through informal or private meeting, they treat their foreign counterparts as old friend. The Chinese like doing business with “old friends” (Lee and Lo 1988).

The findings of the Chinese communication levels:

- Chinese firms communicate to foreign firms at both the formal and private levels;
- The Chinese negotiators follow the rules and regulations to deal with foreign firms at formal level; but
- Reveal their personal goals at private or informal level.

The limitation of the Chinese communication levels:

- The Chinese communication pattern is different from that in the West. Direct application of the Western communication in China will culminate in a cultural clash.

2.4.2.4 Summary of Chinese organisational context

There are three forms of organisation in the Chinese economy i.e. State-Owned Enterprises (SOE), Collectively-Owned Enterprises (COE) and Private Enterprises. The SOE and COE are owned by the State whereas the private enterprises play a supplementary role in the Chinese economy to manage the industries that are not regulated by the State.
SOE partners are more suitable for foreign firms to engage in broader scale of operations in China because of their flexibility in the areas of marketing, material procurement and human resources. COE partners, on the contrary, are more appropriate for foreign firms that want to have production only facility in China.

In addition to the limitation in partner selection, foreign firms are also subjected to Chinese Government’s pressure to adopt joint venture with State firms as an entry mode to the Chinese market regardless of the type of industry (Teagarden 1990 and Beamish 1993).

Relationship building is an important strategy for foreign negotiators to deal with their Chinese counterparts (Leung et al 1995). They further strengthen the mutual expectation and information exchange with their Chinese counterparts to consolidate this relationship building process. However, the “constructs” of relationship remain unknown.

State firms communicate with foreign firms at both formal and private levels. The Chinese negotiators at these State firms follow rules and regulations to deal with foreign negotiators at formal level but reveal their private goals at private or informal level.

As shown, the Chinese view of organisational context is completely different from that of Western view, therefore, foreign negotiators have to incorporate the organisational requirements into a different negotiation environment. As mentioned, a Chinese State-Owned Enterprise’s objectives are two-fold: 1) to fulfil the State mandatory requirement of production, and 2) to engage in a joint venture with a foreign firm to produce goods and services which are market oriented. A foreign firm is more mechanistic in its search for competitive advantage through joint venture in the Chinese market. This complex scenario puts tremendous pressure on foreign negotiators when they negotiate with the Chinese counterparts. The research question, therefore, is:

**Research question no 2.**

*What pattern of influence would the foreign firms exert on their negotiators?*

### 2.4.3 Chinese view on negotiation process

importance of relationship in a Sino-Hong Kong joint venture negotiation scenario that will be reviewed below.

2.4.3.1 Relationship process

Leung et al (1996) summarised the previous Chinese negotiation literature and perceived that joint venture negotiation in the PRC is a 4-stage process. The 4 stages are the pre-negotiation stage, formal negotiation stage, post-negotiation stage and contract-signing stage. A questionnaire was developed and was sent to 1,000 China business investors who are based in Hong Kong and asked for their perceptions on the importance of “relationship” with their Chinese counterparts. 150 questionnaires were received representing a 15% response rate. The respondents expressed their perceptions on a six-point importance scale. 1 – 3 designated least important to a little unimportant and 4 to 6 represented a little important to most important. The research result was briefly summarised in figure 2.16 below.

As shown, almost 88% of the respondents recognised that “relationship” was in the important categories throughout the whole joint venture negotiation process. At least 76.0% of the respondents perceived “relationship” was important at all stages of the joint venture negotiation process.

Figure 2.16 Importance of “relationship” factor as a help in Chinese negotiation process

<table>
<thead>
<tr>
<th>Factor</th>
<th>Choose scale 4/5/6 in %</th>
<th>Rank</th>
<th>Mean</th>
<th>Rank</th>
<th>S.D.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant for the whole negotiation process</td>
<td>87.8</td>
<td>(1)</td>
<td>4.864</td>
<td>(1)</td>
<td>1.13</td>
</tr>
<tr>
<td>Post-negotiation stage</td>
<td>80.9</td>
<td>(2)</td>
<td>4.605</td>
<td>(2)</td>
<td>1.33</td>
</tr>
<tr>
<td>Pre-negotiation stage</td>
<td>76.9</td>
<td>(3)</td>
<td>4.367</td>
<td>(4)</td>
<td>1.375</td>
</tr>
<tr>
<td>Contract-signing stage</td>
<td>76.9</td>
<td>(3)</td>
<td>4.374</td>
<td>(3)</td>
<td>1.481</td>
</tr>
</tbody>
</table>

Value of the Contact network for:

Source of information
- Government policies: 83.4 (2) 4.533 (3) 1.235
- Import regulation and restriction: 82.0 (3) 4.560 (2) 1.308
- Business opportunity leads: 79.4 (6) 4.507 (5) 1.304
- Market trends: 61.3 (10) 4.140 (10) 1.264

Source of resources
- Application of import license: 80.0 (5) 4.380 (8) 1.536
- Approval of application from provincial government: 78.7 (7) 4.473 (6) 1.408
- Approval of application from central government: 77.4 (8) 4.393 (7) 1.506
- Secure electricity for the Joint Venture: 60.7 (11) 3.813 (11) 1.648
- Secure land for the Joint Venture: 55.3 (12) 3.600 (12) 1.537
- Secure raw material for the Joint Venture: 53.3 (13) 3.447 (13) 1.697
- Recruitment of labour: 48.0 (14) 3.253 (14) 1.332
- Approval of advertisement: 47.3 (15) 3.067 (15) 1.319

Other essential area
- Smooth transport arrangement: 84.0 (1) 4.533 (3) 1.230
- Smooth collection of payment: 81.3 (4) 4.700 (1) 1.418
- Building up company reputation and image: 72.0 (9) 4.300 (9) 1.335

At least 50% of the respondents agreed that a “relationship” could help in various areas as shown except in the areas of labour recruitment and advertisement approval. Leung et al (1996) explained that these two areas operate after the joint venture negotiation finishes, and therefore the respondents may have allocated lower weightings.

**The findings of Leung et al’s (1996) research:**

- Chinese joint venture negotiation is a stage-wise process;
- “Relationship” is important throughout the whole negotiation process; and
- “Relationship” helps the joint venture’s approval process and operating conditions such as securing electricity and material supply.

**The limitations of Leung et al’s (1996) research:**

- Their research is rich in explaining the importance of “relationship” in the joint venture negotiation process but poor in describing the negotiation dynamic between the foreign and Chinese partners.

**2.4.3.2 The Chinese joint venture negotiation stages**

Besides the four-stage negotiation process that Leung et al (1996) have proposed, Buttery and Leung (1998) argue that there is one additional stage in the Chinese joint venture negotiation process, i.e. the post contract signing stage. The complete joint venture negotiation process has thus five stages: 1) Pre-negotiation stage, 2) Negotiation stage, 3) Post-negotiation stage, 4) Contract-signing stage, and 5) Post-contract signing stage.

**2.4.3.2.1 Pre-negotiation stage**

The author has already pointed out that relevant documents need to be approved by relevant government departments in section 2.4.1.2. These documents include 1) the letter of intent, 2) the project proposal, and 3) feasibility study. These three documents conceptualise the ideas such as the rationale, the structure and the economic output of the joint ventures (Cook 1996). The Chinese government will base its approval on these three documents and the written opinions from relevant departments to list the proposed joint venture project on the Chinese State Planning agenda. This implies that foreign negotiators cannot start their formal negotiation with their Chinese counterparts. However, the process of relationship building must start right from the initial meeting of negotiating parties at the pre-negotiation stage (Fisher and Ury 1986, Maddux 1988, Lee and Lo 1988, Leung and Yeung 1995).
2.4.3.2.2 Negotiation stage

At this stage, both parties concentrate their negotiation on the structure of the joint venture such as the amount and share of investment, duration and structure of the board. Negotiation strategies can be applied. However, they must not hurt the relationship between the negotiating parties (Buttery and Leung 1998).

2.4.3.2.3 Post-negotiation stage

According to the Western concept, both parties should sign the contract at this stage. However, the situation in China is different because of its planning characteristic. The Government encourages refinement of the agreed terms and considers the agreed terms can be re-negotiated according to the economic conditions of the Chinese economy. This is evidenced by the fact that the agreed terms need to be approved by MOFTEC and the State Planning Commission. In addition to the re-negotiation issue, relationship between the negotiating parties must be maintained (Mente 1992).

2.4.3.2.4 Contract-signing stage

Both parties sign the contract at this stage. However, the legal system in China allows re-negotiation of a contract implying that a contract is a commercial paper rather than the final documentation on a long-term co-operation. As such, long-term co-operation should be in accordance to the economic development of the Chinese economy.

Article 2 of the Economic Contract Laws defines an economic contract as:

"An agreement between legal persons which defines their mutual rights and obligation for the purpose of realising certain definite economic goals." (Wang 1993, p.59)

Article 3 of the Economic Contract laws states that:

"Contracts should be concluded in accordance with the principles of equality and mutual benefit and agreement through consultation." (Wang 1993, p.62)

The above two articles clearly demonstrate the concept of an economic contract in China; i.e. it is a commercial paper that contributes to the growth of the Chinese economy and it can be amended through consultation based on the principle of equality and mutual benefit.

As such, the signing of a contract does not signify a start of a joint venture project. This concept is significantly different from that in the Western concept.
2.4.3.2.5 Post-contract signing stage

As shown before, a contract is not a binding document. In a lot of cases, a contract can be re-negotiated after it has been signed. Buttery and Leung (1998, p.385) agree:

"The signing of a contract does not signify the end of the negotiations but only the willingness of the Chinese to commit to the relationship. This means they may continue to negotiate even after the contract has been signed, after all the Chinese continuously emphasis that all agreements are based on the friendship and goodwill, really making the final contracts unnecessary."

Contract can be re-negotiated because of change in economic situation. For instance, the adoption of a unified exchange rate of about Rmb 8.7 to the US dollar in January 1994 materially altered the contracts signed between foreign investors and mainland partners. Because of this economic amendment, the state-owned enterprises needed to re-negotiate with their foreign partners on the terms for contracts that were not implemented (Foo, 1994).

In addition to the negotiation phenomena, the joint venture must also be registered with various departments. Both parties need tight co-operation during the registration process.

The whole negotiation process has two distinctive features:
1. The whole negotiation process is highly correlated with the Chinese legal framework for joint venture establishment; and
2. "Relationship" is emphasised throughout the whole process.

The relationship between the five-stage Chinese negotiation process and the Chinese legal framework for foreign joint venture establishment is shown in figure 2.17.
Figure 2.17 Relationship of Legal procedures with different negotiation stages for JV establishment

**Pre-negotiation stage** - formal negotiation cannot be started until all bureaucratic procedures have been established for JV.

**Negotiation stage** - formal negotiation is conducted on the format and structure of the JV.

**Post-negotiation stage** - this is a stage to wait for the formal approval from relevant government on JV structure. Meantime, request for changes on JV structure due to change of Chinese economic conditions may happen.

**Contract-signing stage** - Both parties carefully check the details of the contracts; prepare other documents and sign the contract.

**Post-contract signing stage** - Formal approval comes from MOFTEC. Both parties register the JV with relevant dept.
The findings of the Chinese joint venture negotiation process:

The review of the Chinese joint venture negotiation provides the following findings:

- A relationship is emphasised throughout the joint venture negotiation process.
- The Chinese joint venture negotiation is a 5-stage process comprising of the pre-negotiation stage, the negotiation stage, the post-negotiation stage, the contract-signing stage and the post-contract signing stage;
- The Chinese joint venture negotiation process is highly correlated with the legal framework for joint venture establishment;
- The Chinese perceive a contract as a commercial paper and a start of long-term co-operation and therefore re-negotiation can happen at any stage after the formal negotiation;

The Limitation of the Chinese joint venture negotiation process:

- There is no absolute time frame associated with the joint venture negotiation process. Yan (1995) reported that foreign joint venture negotiation in China could last for seven years. Likewise, Buttery and Leung (1998) reported that contracts already signed could be re-negotiated.

2.4.3.3 Chinese negotiation strategies

As mentioned in section 2.3.3.1, there are five negotiating strategies i.e. collaborating, compromising, accommodating, controlling and avoiding (Thomas and Kilmann 1974). Stewart and Keown (1989) have used this framework to compare the strategies used by the Chinese negotiators and their Western counterparts. They conducted research of negotiating strategies on 50 Western traders in Hong Kong. Responses were collected via questionnaires and personal interviews. All available strategies were listed on the questionnaire. One additional strategy suggested by their interviewees was also added on the questionnaire i.e. sudden demands or changes. The result of this survey is presented in figure 2.18. Respondents were asked their perceptions of the negotiation strategies used by their own team and by the PRC team. The two strategies most often used by the Western teams were collaborating and compromising, cited by 52% and 20% of the respondents respectively. The two strategies most often used by their PRC counterparts, as perceived by the Western traders, were collaborating and sudden demands or changes, cited by 39% and 22% of the interviewees respectively.
Figure 2.18 Western and PRC negotiation strategies

<table>
<thead>
<tr>
<th>Negotiation strategies</th>
<th>% of Total Responses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Collaborating (Win/win)</td>
<td>52</td>
</tr>
<tr>
<td>Controlling (We win/they lose)</td>
<td>11</td>
</tr>
<tr>
<td>Compromising (a little bit of losing/a little bit of winning)</td>
<td>20</td>
</tr>
<tr>
<td>Accommodating (We lose/ they win)</td>
<td>13</td>
</tr>
<tr>
<td>Avoiding (We lose/ they lose)</td>
<td>0</td>
</tr>
<tr>
<td>Sudden demands or changes (put in a disadvantageous position)</td>
<td>4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Western</th>
<th>PRC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>


The strategies used by the Western traders reflected that they intended to adopt collaborating and compromising strategies. The Chinese, on the contrary, adopt collaborating strategy or suddenly changing their demands. Mente (1992) cited that the Chinese suddenly change their demand on items such as investment amount to put the other side in a disadvantageous position.

One strategy i.e. avoiding was not used by either the Chinese or the foreign team. This shows that both sides attempt to maintain relationship.

The findings of Stewart and Keown's (1989) research:

- The research depicts the strategies that are employed by the foreign and Chinese negotiators; and
- The research indicates that both sides attempt to maintain relationship by not employing the avoiding strategy.

The limitation of Stewart and Keown's (1989) research:

- The description of the Chinese negotiation strategies was based on Western counterparts' perceptions that cannot truly reflect the real picture of the negotiation strategies used by the Chinese.

2.4.3.4 Summary of Chinese negotiation process

Maintaining a relationship is important throughout the whole negotiation process and its helps to smooth the joint venture's approval process and to obtain favourable operating conditions such as securing electricity and material supply.
A five-stage joint venture negotiation process i.e. the pre-negotiation stage, the negotiation stage, the post-negotiation stage, the contract-signing stage and the post-contract signing stage, is identified. The progress from one stage to the next is highly correlated with the legal framework for joint venture establishment. Re-negotiation happens at any stage after the formal negotiation stage because the Chinese perceive a contract as a commercial paper and a start of long-term relationship, and therefore re-negotiation is just an act to consolidate that long-term relationship.

The Chinese attempt to use collaborating strategy and suddenly change their demand thereby putting the other side at a disadvantage. The foreign negotiators attempt to employ collaborating and compromising strategies. In any case, both sides try to maintain relationship by not employing the avoiding strategy.

As shown, the Chinese negotiation process is longer than that of the foreign firm, i.e. the Chinese negotiation process has five stages whereas there is only three stages in the Western negotiation process. There are different documentation outputs, and strategies emerged at different stages. Careful handling is required in order to proceed from one stage to the next. Therefore, the research will be:

**Research question no 3.**

How did the joint venture (JV) negotiation proceed from one stage to the next?

In addition to the negotiation process, the negotiation strategies from a Chinese perspective are different from those to their Western counterparts. As shown, the Chinese emphasise more the collaborating strategy and suddenly changing demand to put their foreign counterparts at a disadvantage, whereas the foreign negotiators intend to employ the collaborating and compromising strategies. Whatever strategy they are going to use, they have to negotiate on a common platform "relationship". Therefore the research question will be:

**Research question no 4.**

How did the foreign negotiators formulate strategies and how did they respond to the PRC counterparts' strategies?

### 2.4.4 Chinese view on negotiation culture

Previous section revealed the literature in joint venture negotiation process from a Chinese perspective. This section reviews the literature related to the Chinese negotiating culture.
Numerous authorities (Bond and Hwang 1986, DePauw 1981, Brunner et al 1989, Tung 1982a and 1982b) emphasise the cultural aspects when they investigate Chinese negotiation in a cross-cultural context. Deng (1997) noted the necessity for the Western investors to pay close attention to the cultural aspect of a successful investment in China. This section reviews research on Chinese culture, and the specific cultural elements that influence joint venture negotiation in China.

2.4.4.1 Chinese cultural dimensions

Buttery and Leung (1998) analyse Hofstede’s (1991) cultural dimensions on a set of selected Western and Chinese countries. They confirm that there are vast differences between them on three dimensions i.e. individualism, power distance and long-term orientation. Their study on Hofstede’s five cultural dimensions is presented in figure 2.19 below.

Figure 2.19 Value index of Hofstede’s five dimensions in Western and Chinese cultures

| Dimension | Power distance | Individualism | Masculinity | Uncertainty avoidance | Long-term orientation *
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hong Kong</td>
<td>68</td>
<td>25</td>
<td>57</td>
<td>29</td>
<td>96</td>
</tr>
<tr>
<td>Taiwan</td>
<td>58</td>
<td>20</td>
<td>45</td>
<td>69</td>
<td>87</td>
</tr>
<tr>
<td>Singapore</td>
<td>74</td>
<td>17</td>
<td>48</td>
<td>8</td>
<td>48</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>67</strong></td>
<td><strong>21</strong></td>
<td><strong>50</strong></td>
<td><strong>35</strong></td>
<td><strong>77</strong></td>
</tr>
<tr>
<td>Australia</td>
<td>36</td>
<td>90</td>
<td>61</td>
<td>51</td>
<td>31</td>
</tr>
<tr>
<td>Great Britain</td>
<td>35</td>
<td>89</td>
<td>66</td>
<td>35</td>
<td>25</td>
</tr>
<tr>
<td>USA</td>
<td>40</td>
<td>91</td>
<td>62</td>
<td>46</td>
<td>29</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>37</strong></td>
<td><strong>90</strong></td>
<td><strong>63</strong></td>
<td><strong>44</strong></td>
<td><strong>28</strong></td>
</tr>
</tbody>
</table>

Note: * Based on a Chinese Value Survey rather than the IBM study and showed a long-term orientation in index for China of 118.


As shown in figure 2.19, the power distance indexes of the Chinese countries are consistently higher than the Western group of countries by individual country standard and by the average of the two groups of countries. This indicates that people in the Chinese countries accept the fact that power is unevenly distributed. In term of individualism, the indices of the Chinese countries are strikingly lower than Western results on individualism. This indicates that the human ties in the Chinese countries are much tighter than human ties in the Western countries.

The masculinity indices for the Chinese countries are slightly lower than masculinity indices for the Western countries. However, the differences are not significant enough to conclude there is a difference between the Chinese and the Western groups of countries. This may be due to the rapid economic growth in these Chinese countries for the past decades, and to their organisation
management styles having been subjected to Western influences. Therefore, they have comparable emphasis on performance and goal achievement.

The uncertainty avoidance dimension shows some interesting findings in a sense that the indices of Hong Kong and Singapore are substantially lower than those of the Western group of countries whereas the index of Taiwan is higher than their counterparts in the West. This may be due to the Taiwanese' fear for the military attack coming from Mainland China which generally creates anxiety within the Taiwanese society. Interestingly, the score for Singapore is extremely low when compared to Hong Kong in the Chinese group of countries. In fact, Singapore's situation is different to the situation in Hong Kong in that Singapore is a highly regulated country whereas Hong Kong was a British colony with uncertainty before it was returned to China in 1997. The result of Hofstede's (1984, 1991) research which was carried out before 1997, just reflects Hong Kong people's uncertainty level before 1997. Given these situations, people in Singapore surely have more sense of belonging and more long-term view and therefore the score in this dimension is extremely low. The Chinese in Hong Kong, on the contrary, have a more short-term view. Coupled with the high economic growth as mentioned above, the Chinese in Hong Kong are highly motivated to generate wealth. Their wealth, together with their comparatively high level of English skill in Southeast Asia, increase their migration mobility to other countries, the feeling of uncertainty is, therefore, lower than Taiwan's uncertainty.

With regard to the long-term orientation, the Western group of countries reflects a much lower average score than the Chinese group of countries. The "long-term" orientation reflects the way in which the Chinese culture incorporates, in its values, the teachings of Confucius and in particular the importance of perseverance and thrift. Hong Kong, Taiwan and Singapore follow more closely a pragmatic set of rules than their Western counterparts because they all obtained higher scores in the long-term orientation index. Hofstede (1991) argued that the emergence of market conditions and political support, together with these rules (or Confucian dynamism), initiate the economic success in these Chinese countries. Within the Chinese group of countries, it is not surprising to see that Singapore has a relatively lower score than Hong Kong and Taiwan because it is a more restrictive country and hence the "Confucian dynamic" is hindered.

The most significant cultural differences between Western and Chinese countries occur in terms of individualism, power distance and long-term orientation. The differences are depicted in figure 2.20 below.
The findings and limitations of Buttery and Leung’s (1998) analyses:

- They have identified three Western and Chinese cultural differences i.e. power distance, individualism and long-term orientation. These three differences are believed to generate differences in negotiation between the West and the PRC (Buttery and Leung, 1998).

The limitation of Buttery and Leung’s (1998) analyses:

- The identification of differences in these three dimensions is not sufficient to explain Chinese negotiating behaviour because these three dimensions must be further operationalised into specific culture for application purpose. Buttery and Leung (1988) admit this limitation and claim further investigation has to be done in understanding the Chinese culture that has impact on Chinese joint venture negotiation. As Buttery and Leung (1988, p377) mentioned: “These characteristics (the three dimensions) pose a challenge to Western negotiators as they need understand the Chinese group dynamics, their hierarchical structures and their long-term orientation all of which are a clue to their motives in business negotiation.”

2.4.4.2 Chinese negotiating culture

The cultural differences between foreign and Chinese negotiators on the three dimensions in the previous section mean that Chinese negotiators have a distinctive negotiating culture which needs to be understood by their Western counterparts because this negotiating culture has impact on the way that foreign and Chinese negotiators interact. As Buttery and Leung (1998, p.377) state: “the Chinese countries tend to be group-based economies and have a clearer hierarchical structure in their decision process whereas their Western counterparts are more individualistic and loosely organised.”

According to Leung (1997) and Wong (1997), there are in total six Chinese cultural elements that influence Chinese negotiating behaviour i.e. networking, guanxi, face, reciprocity, reqing and trust.

2.4.4.2.1 Networking

Numerous authorities observe that business organisations operate in an environment that only includes a limited number of identifiable organisational entities (Hakanson 1982, Turnbull 1987, Ford
1980, Hakansson and Snehota 1989, Buttery and Buttery 1994). The establishment and development of an inter-organisational relationship requires a "mutual orientation" among the firms in a network that may be the rule rather than exception for a wider population of business organisations to survive (Ford 1986, Turnbull 1987 and Hakansson 1982). An organisation's interactions and exchange processes with other firms in that network develop linkage of resources and activities of one party with those of another. These resources and activities among firms complement one another. Identifiable organisational entities can use the existence of complementarity or competitiveness in their relationships in different ways, as they interact with one another. This could create not only triangular relationships, but even "networks" involving four, five, six or more participating business organisations (Hakansson and Snehota, 1989).

Redding and Whiteley (1990) identified that nepotism, cliques, and patronage systems exist within Chinese firms. One has to be sufficiently trusted to be included in these private "systems". Inter-firm relations are strategic and ought to be managed with the utmost care and attention. In an essentially hierarchical society such as China, who should contact whom (status level), what information is to be sought or exchanged, what types of deals are to be concluded (authority level) are subtly defined in Chinese culture. The Chinese at every level of inter-connection from 'between-countries' to 'between-workers' have capitalised on their collectivistic cultural traits. They have managed to knit vast networks of mutually beneficial relationships (Redding & Tam, unpublished paper).

2.4.4.2 Guanxi

In Chinese culture, it is perceived that one's existence is largely influenced by his/her relationships with others; and that one cannot change the environment but must harmonise with it. This "guanxi" concept is embedded in Chinese business decision making even though businessmen have been exposed to Western cultures (Tse et al 1988).

A major factor motivating the efforts to form Guanxi is the prevalent shortages of everyday necessities, including housing and scarce goods, so the Chinese developed Guanxi to obtain them (Brunner et al 1989, Wong 1997). The primitive communication system and bureaucratic maze also prompt the Chinese to rely upon Guanxi as their 'currency' to perform practical roles. This social phenomenon works autonomously parallel to the State distributive and market oriented systems. It involves ethical considerations, as well as personal obligations, 'face' behaviour, reciprocity, and social honour. The right "guanxi" can bring cheap and reliable material supplies; tax concessions; marketing of goods domestically or for export, and provision for assistance when problems arise (Pye 1986; Tai, 1988; Osland, 1989, Thompson 1990, Murphy 1996).

In the process of cultivating "guanxi", gifts are normally used (Wong 1997). Money is rarely presented because it is not personal enough and may be perceived as bribery. The gift should appropriately fit the personal need of the recipient and be presented at the right occasion such as...
birthday party. Otherwise, the recipient will lose face and the presenter does not have face (Brunner and Koh, 1988).

2.4.4.2.3 Face

Face means one's respect, status, and moral reputation in Chinese society. It is an image of self-delineation in terms of approved social attributes (Leung 1997, Hu 1944; Hwang, 1987; Lin, 1949). One's face is not solely the responsibility of the individual, but it is influenced also by the actions of those with whom one is closely associated with, and how one is perceived and dealt with by others. The emphasis is upon the reciprocity of obligations, dependence and the protection of the esteem of those involved. One should not only protect one's face, but also extend face to others. Both are of equal importance (Brunner and Wang 1988).

Asian societies are socially stratified and class conscious (Brunner and Wang 1988). The Chinese exercise this social stratification through their bureaucratic system. The practices of "Give Face", "Loss of Face" and "Face Enhancement" is evident at a country-, business- as well as personal level. For example, the Chinese government's repeatedly reference to the former American President Nixon as "old friend" is an act of "giving face" to him. The Chinese government's refusal to invite the former Hong Kong Governor Chris Pattern to visit Beijing was an act to get him to "loose face" because of his autonomous amendment of the Hong Kong basic laws for post 1997 which were supposed not to be changed without Beijing's consent.

"To Give Face" to Chinese business counterparts is an invaluable asset to establish a good "Guanxi" to conduct business in China. It involves a reciprocal relationship of respect and courtesy to and from one's counterpart and recognises the counterpart's reputation in a society. "To give face" to one's counterpart will certainly gain a good impression because it can provide the receiver with a strong feeling of satisfaction, pride and enhanced confidence.

On the contrary, to get someone to "loose face" is to denounce one's status and reputation. It also indicates a loss of confidence and a lack of trust (Brunner and Wang, 1988). In Chinese society, to challenge or deliberately destroy others' face is regarded as an aggressive act. It is not surprising to see that those faces have been discredited to retaliate by destroying others' faces in return (Bond and Wang 1982).

The act of saving others' face promotes cohesiveness among group members. Modesty over one's achievement and appreciation of the loser's skill and effort are central to 'saving face'. It is particularly true when there are outsiders present to witness the potential loss of face. Once face has been lost, the winner has to save the loser's face by ignoring the face-losing incident as if it has never occurred. "Face-saving" protects group integrity and will therefore be a valued behaviour.
"Face enhancement" is another technique to enhance one's "face" by a variety of actions. For example, a businessman may make a donation to a Chinese university and a professor could send books to the library of a Chinese university. A businessman can participate in a public ceremonial function and present an American flag if the appropriate occasion arises. Further, he may lend his support to negotiations or introduce a Chinese official to representatives of another company that may be interested in negotiation with the Chinese (Brunner and Wang, 1988).

2.4.4.2.4 Renqing

Renqing is a resource that an individual can present to another person as a gift in the course of social exchange (Hwang 1987). The Chinese saying "I owe him a renqing" signifies that renqing is a certain kind of resource that can be used as a medium of social exchange. The importance of this concept can be demonstrated by an example concerning the Chinese organisational characteristic. The Chinese Premier Zhu Rongji specifically mentioned the importance of renqing when he addressed the problem of labour dismissal to pursue a socialistic market economy. In the Chinese communist history, total employment has been one of the government objectives to maintain social stability. And the government has been providing subsidy through the State Own Organisations to the temporary unemployed based on the renqing concept to maintain this social stability. However, this renqing tradition is now being shaken because the socialistic market economy has painfully streamlined its State Owned Organisations by re-attaching their workers to potential new work units. Some State Owned Organisations attempt to save costs by cutting this subsidy to the workers. Premier Zhu emphasised the importance of providing subsidy to these workers (Anonymous author, Apple Daily News, 21/5/98).

Renqing connotes a set of social norms by which one has to abide in order to get along with other people in Chinese society. The norm of renqing includes two basic kinds of social behaviour:

- One should keep in contact with the acquaintances in one’s social network; and
- When a member of one's social network gets into trouble or faces a difficult situation, another member should sympathise or offer help and “do a renqing” for that member.

The resource distributor adopts the rule of renqing when he/she allocates that resource to another person (Hwang 1987, Wong 1997):

- The cost of paying out the resources;
- The anticipation of the petitioner’s reciprocation; and
- Social evaluations of the act from other people in the same social network.
2.4.4.2.6 Reciprocity

Social relationships among human beings cannot be effectively established without the practice of reciprocity that is an important key to understand face dynamic in Chinese society (Brunner et al 1988). Reciprocity means "a favour for a favour, an attack for an attack." Although the repayment or return in social relation need not always be immediate, those received favours would be ready to pay back the debt of gratitude once circumstances permit (Yang 1986).

The Chinese believe that reciprocity of actions (favour and hatred; reward and punishment) between man and man, and indeed between man and supernatural beings, should be as certain as a cause-and-effect relationship. Therefore, when a Chinese person acts, he/she normally anticipates a response and return. Favours done for others are often considered as what may be termed as "social investment" for which handsome returns are expected at a later stage.

The norm of reciprocity was demonstrated by an act of the Chinese government. During the War between South and North Vietnam in the 1950s, nobody dared to deliver military materials to the Chinese Communist Party (CPC) which was a supporter of North Vietnam in the fear that the CPC would lose in the war except Mr. Fook Ying Tong. Based on the norm of reciprocity, the Chinese government attempts to return favours to him if possible, and so for instance, the distributorships of a lot of famous Chinese products in Hong Kong have been granted to Mr. Fook by the Chinese government.

2.4.4.2.7 Trust

Leung et al (1995) argue that Chinese negotiators classify their counterparts into four categories i.e. business associates, business partners, new friend and old friend. If the foreign negotiators go through the official channels to establish business relationship i.e. through the official importing and exporting corporations, the relationship between the Chinese and the foreign firms is at business level i.e. "business associates" and subsequently "business partners" if they have transactions. At the business level, no personal relationship is involved. This type of transaction is discrete in nature and is purely profit driven (Lee and Lo 1988). However, if the foreign negotiators take an alternative route to build up relationship with them at personal level by going through some guanxi person, the business scenario will be completely different. At the initial personal contact, the concept of "new friends" emerges. At this stage, the Chinese will test the degree of bonding with the foreign firms through various contacts such as formal meetings (company visits) of informal meetings (eating and drinking). After the relationship is consolidated and differences such as business styles and practices are resolved, the stage of "old friends" appears and both parties will be bonded by "trust".
Long term relationship or “trust” between both parties can be established if foreign negotiators can demonstrate long term commitment. For example, IndusCon, a U.S. partner re-invested all their profit into the joint venture which helped to create a positive perception on the Chinese side that they were sincere, considerate, and committed to long term interests of the partnership. IndusCon, being trusted by the Chinese, has been able to generate a high level of consensus and a superior working relationship between the partners and has demonstrated a very solid performance over the past 12 years since its founding (Yan, 1995).

The findings of the Chinese negotiating culture:

The literature review of the Chinese negotiating culture gives the following findings:

- Six relational elements i.e. networking, guanxi, face, reciprocity, renqing, and trust are important in the joint venture negotiation process between foreign negotiators with their Chinese counterparts; and
- The Chinese want to establish long-term relationship with their foreign counterparts. Therefore, these six relational elements must be carefully managed through the whole joint venture negotiation process between foreign and Chinese parties.

The limitation of the Chinese negotiating culture:

- The Chinese way of negotiating takes completely a different approach to relationship building. Amber (1994, p.71) concurs: “the Chinese believe that one should build the relationship and if successful, transactions will follow. Westerners build transactions and, if they are successful, a relationship will follow. This difference underlies many joint venture negotiation failures.”

2.4.4.3 Summary of negotiating culture

The Chinese negotiating culture is distinctive and can be explained by Hofstede’s (1984, 1991) cultural dimensions and Chinese unique cultural elements.

Buttery and Leung (1998) used Hofstede’s (1984, 1991) cultural dimensions to identify three Western and Chinese cultural differences i.e. power distance, individualism and long-term orientation. These three differences are believed to generate differences in negotiation between the West and the PRC. The differences in cultural dimensions pose a challenge to Western negotiators as they have to understand the Chinese negotiating dynamic.

The Chinese negotiating dynamic is oriented from the Chinese unique cultural elements. There are six unique cultural elements i.e. networking, guanxi, face, reciprocity, renqing and trust. They need to be carefully managed during joint venture negotiation to avoid a cultural clash. The Chinese wa...
of negotiating takes a completely different approach to relationship building. The Chinese believe that one should build the relationship, and if successful, transactions will follow. Westerners build transactions and, if they are successful, a relationship will follow.

As shown, the Chinese negotiating culture emphasises a soft approach i.e. networking, guanxi, face, reciprocity, renqing and trust whereas their Western counterparts emphasise a hard approach i.e. developing rapport through communication processes and tailor-mode cultural training courses to help their negotiation. If both, the Chinese and the foreign parties, vigorously employ their pre-determined cultural approach, they will end up with a cultural clash. However, if one party blindly submerges to the other side’s culture, that party will possibly lose their identity and will be derailed from its negotiation objectives. Therefore, the research question will be:

**Research question no 5.**

How important were Chinese cultural elements e.g. “network”, “guanxi”, “face”, “reciprocity”, “renqing” and “trust” to the joint venture (JV) negotiation?

In addition to the importance of culture in the interaction between two negotiation parties, parties also need to be equipped with a problem-solving attitude (PSA). This PSA is believed to generate a favourable environment to establish rapport. Therefore, a research question is:

**Research question no 6.**

How did the problem solving attitude (PSA) i.e. information gathering and need fulfilment help negotiators to negotiate?

### 2.4.5 Summary of Chinese relationship paradigm

The Chinese relationship paradigm on joint venture negotiation is summarised according to the four variables i.e. environmental context, organisational context, negotiation process, and negotiation culture.

The Chinese social and cultural contexts emphasise on “jen” and “lun” which are the essential parts of Confucius’ theories of harmony and hierarchy. By practising moral excellence (jen) within a Chinese society that is hierarchically ordered by web of relationships, social harmony can be achieved. Full literature review can be found in section 2.4.1.2.

The Confucian’s concepts of hierarchy and harmony are deeply imbedded within the Chinese political/legal administrative structures. The legal procedure for Sino-foreign joint venture establishment is lengthy and is bureaucratic in nature. Joint venture negotiation may collapse if both
parties develop adverse relationships and do not process a Problem Solving Attitude (PSA) to handle the application procedures. Thorough literature review can be found in section 2.4.1.3.

The Chinese government has intended to modernise its economy through development of joint ventures with foreign enterprises. These Sino-foreign joint ventures have been establishing with state owned Enterprises (SOEs) in the forms of Equity and Contractual Joint Ventures (EJVs and CIVs). Full literature review can be found in section 2.4.1.1.

Sino-foreign joint ventures have been transferring Western technologies to modernise the Chinese economy. However, the process of transferring Western technologies into China has been hindered by the non-tacit and tacit problems. Full literature can be found in section 2.4.1.4.

The Chinese organisational context is characterised by three factors: 1) the forms of Chinese organisation, 2) relationship building, and 3) communication levels. There are three forms of organisation in the Chinese economy i.e. State-Owned Enterprises (SOE), Collectively-Owned Enterprises (COE) and Private Enterprises. The Chinese government, in general, does not allow foreign enterprises to engage in joint venture activities with private enterprises because of their supplementary role in the Chinese economy. Foreign firms are pressurised by the Chinese government to adopt joint ventures with State firms as an entry mode if they want to participate in the Chinese market. Full literature can be found in section 2.4.2.1. Relationship building is an important strategy for foreign negotiators to deal with their Chinese counterparts. Both parties understand that mutual expectation must be comprehended and information exchange must be appreciated in order to consolidate their relationship. Full literature review can be found in section 2.4.2.2. State firms communicate with foreign firms at both formal and private levels. The Chinese negotiators follow rules and regulations to deal with foreign negotiators at formal level but reveal their private goals at private or informal level. Full literature review can be found in section 2.4.2.3.

The Chinese joint venture negotiation process emphasises relationships. It is complicated and lengthy and is consisted of five stages i.e. the pre-negotiation stage, the negotiation stage, the post-negotiation stage, the contract-signing stage and the post-contract signing stage. Negotiation progress is parallel to the legal application for sino-foreign joint venture establishment. Documentation emerges at different stages of the process. Negotiation may fall through at any point of this lengthy process. The Chinese like using the collaborating strategy and suddenly changing demand to put the other side at a disadvantageous position. Full literature review can be found in sections 2.4.3.1/2/3.

Buttery and Leung (1998), based on Hofstede’s work (1984, 1991), have identified that Chinese culture has a high index in power distance, a low index on individualism, and a high index on long-term orientation. These three cultural characteristics have influenced the Chinese negotiating dynamic that is driven by six cultural elements i.e. network, guanxi, face, reciprocity, renqing and
trust. The Chinese negotiating dynamics need to be carefully managed during joint venture negotiation to avoid cultural clashes. Full literature review can be found in section 2.4.4.1/2/3.

The conceptualisation of the Chinese joint venture negotiation paradigm is presented in figure 2.21.
Figure 2.21 Chinese View of Relationship on JV negotiation

The Chinese JV negotiation paradigm drives the formulation of strategies on environmental, organizational, negotiation process and cultural context. Contract can be re-negotiated after it is signed and is a means to start a long-term cooperation.
2.5 MODEL DEVELOPMENT PROCESS

Section 2.3 and 2.4 discussed the Western and Chinese joint venture negotiation paradigms. This section is to discuss the model development process that includes comparison and contrast, holistic conceptualisation of the Sino-foreign joint venture negotiation process and the analytical model for the development of a Sino-foreign joint venture negotiation model.

2.5.1 Comparing and contrasting Western and Chinese paradigms

Sections 2.3 and 2.4 presented the Western contractual exchange and Chinese relationship exchange paradigms. The respective research questions were also formulated. This section is to compare and contrast their joint venture negotiation characteristics. Figure 2.22 shows the strategies in the four constructs, environmental context, organisational context, negotiation process and the negotiating culture of the Western and Chinese paradigms.
Figure 2.22 Holistic picture on Sino-foreign joint venture negotiation strategies

Presentation of joint venture negotiation strategies according to the four constructs i.e. environmental context, organizational context, negotiation process and cultural context between Western and Chinese firms.
2.5.1.1 Comparison

Gundlach’s (1993) framework of Continuum of Exchange is adapted to compare the Western and the Chinese business philosophy.

Figure 2.23 Continuum of Exchange
This continuum reflects different degree of foci on the contractual and relationship exchange

<table>
<thead>
<tr>
<th>EXCHANGE ELEMENT</th>
<th>Transactional</th>
<th>Contractual Exchange</th>
<th>Relationship exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Temporal Dimensions</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Time Horizon</td>
<td>Short duration; intermediate to extended</td>
<td></td>
<td>Extended</td>
</tr>
<tr>
<td>Nature of transaction</td>
<td>Short transaction has distinct beginning and end</td>
<td>Long duration; transactions linked together</td>
<td>Longest duration; merged transaction</td>
</tr>
<tr>
<td><strong>Situational/strategic Characteristics</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investment</td>
<td>Small</td>
<td>Moderate</td>
<td>Large</td>
</tr>
<tr>
<td>Switching costs</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
</tr>
<tr>
<td>Purpose of exchange</td>
<td>Narrow; economic; substance of exchange</td>
<td>Moderate; economic and social elements; creation of longer-term initiatives</td>
<td>Broad; economic and social elements; creation of longer-term initiatives</td>
</tr>
<tr>
<td>Strategic emphasis</td>
<td>Low</td>
<td>Moderate</td>
<td>High</td>
</tr>
<tr>
<td><strong>Outcome</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Complexity</td>
<td>Simple offer-acceptance</td>
<td>Increasing complexity</td>
<td>Complex web of operational and social interdependence</td>
</tr>
<tr>
<td>Division of benefits and burdens</td>
<td>Distinct, sharp division</td>
<td>Trade-off and compromise</td>
<td>Blurring as goals converge</td>
</tr>
</tbody>
</table>


The continuum in figure 2.23 mainly compares the temporal dimensions, situational/strategic characteristics and outcome of three types of exchange i.e. transactional, contractual and relational exchanges. At the transactional extreme, exchange aims at short duration, small investment, narrow focus of purpose, distinct and sharp division of benefits and burdens. At the other extreme of relational exchange, the exchange aims at extended association, large investment, multi-purpose, and complex web of operational and social interdependence. The contractual exchange lies in between the two extremes.

2.5.1.2 Contrast
Wee’s (1994) and Wong’s (1997) frameworks will be used to contrast the Western and Chinese views on negotiation.

As shown in Figure 2.24, Chinese emphasise friendship more than their Western counterparts and treat the relationship as a means to provide competitive advantage. On the contrary, their Western counterparts attempt to focus on profits and other business dimensions such as return on investment.

**Figure 2.24 Contrast between Western and Chinese views**
The contrast between Western and Chinese views on management can be traced back to basic societal values and practices (such as the Western emphasis on the individual’s right and freedom versus the Chinese view of society over individual.

<table>
<thead>
<tr>
<th>Western View</th>
<th>Chinese View</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Societal Values and Practices</strong></td>
<td><strong>Societal Values and Practices</strong></td>
</tr>
<tr>
<td>Fragmented</td>
<td>Disciplined and cohesive</td>
</tr>
<tr>
<td>Encourage differing views</td>
<td>Instil discipline and order</td>
</tr>
<tr>
<td>Operate more on legality</td>
<td>Operate more on morality</td>
</tr>
<tr>
<td>Laws can be exploited</td>
<td>Laws to be enforced</td>
</tr>
<tr>
<td>Tolerance of failure</td>
<td>Intolerance of failures</td>
</tr>
<tr>
<td>Sense of sufficiency and invulnerability</td>
<td>Sense of survivability</td>
</tr>
<tr>
<td>Individual right and freedom</td>
<td>Societal values and interest</td>
</tr>
<tr>
<td>Self over society</td>
<td>Society over self</td>
</tr>
<tr>
<td>New culture</td>
<td>Very established culture</td>
</tr>
<tr>
<td>Flexible</td>
<td>Inflexible</td>
</tr>
<tr>
<td>Loose friendship</td>
<td>Thrive on relationship</td>
</tr>
<tr>
<td>Rely on government for welfare</td>
<td>Rely on self/family assistance</td>
</tr>
</tbody>
</table>

**Business Practices**
- Mechanistic
- Short pay back period and high ROI
- Big gift-giving viewed as illegal
- More focus on profits
- Public relationships more a chore
- More organic than mechanistic
- Long pay back and investment approach
- Gift-giving of building relationship
- More focus on market share
- Relationship provides competitive advantages


### 2.5.1.3 Summary of on comparison and contrast

The Chinese emphasise long term association, and friendship is the bonding for that long-term association. They rely on a complex web of operational and social interdependence to conduct business that is more dynamic/organic in nature. The relationship is used as a powerful tool to provide competitive advantage in the daily operation.

Their Western counterparts, on the contrary, emphasise a mechanistic calculation of return on investment and shorter pay back period. Trade-off and compromise is more flexible when they conduct business. Friendship is loosely treated and therefore public relation is a chore. Business complexity tends to increase when the size of the business increases.
The comparing and contrasting of the two paradigms implies that Sino-foreign joint venture negotiations will fail because these two paradigms take a completely different approach. The Chinese mainly emphasise relationships whereas their Western counterparts emphasise scientific appreciation of the modern business analyses. The recognition of these two different paradigms motivates the author of this thesis to perceive Sino-foreign joint venture negotiation from a holistic perspective. This holistic conceptualisation will be presented in next section.

2.5.2 Holistic conceptualisation of Sino-foreign joint venture negotiation

Joint venture negotiation is conceptualised as an internationalisation process for a foreign firm to enter the Chinese market. The process will be briefly described below.

This foreign firm firstly conducts international environmental context analyses and designates China as the candidate of market development. Because of the unique market characteristic, described in the Chinese environmental context section, joint venture (JV) is the most promising method of entering the Chinese market. The process of JV prospect identification and JV structure formulation will be heavily influenced by the Chinese environmental context i.e. its economic, cultural/social, political/legal and technological environments. Both Western and Chinese parties emphasise relationships as an essential basis for joint venture negotiation. They go through the process of negotiation by employing effective strategies and solve their disagreements by using the Problem Solving Attitude (PSA).

The conceptualisation of this process is depicted in figure 2.25.
Figure 2.25  Conceptualisation of Sino-foreign joint venture negotiation in China

A foreign firm firstly appreciates the international environment and designates China as the candidate of market entry. The process of prospect identification and joint venture structure formulation will be heavily influenced by the Chinese environmental context. Both parties emphasize on relationship as a negotiating culture that is the essential basis for joint venture negotiation.

2.5.3  Analytical model for Sino-foreign joint venture negotiation

The holistic conceptualisation of the Sino-foreign joint venture negotiation prompts the author of this thesis to adapt an analytical model (Buttery and Leung 1998) in figure 2.26.
The analytical model in figure 2.26 assumes that a firm that is operating in an international environment identifies China as a potential market for investment. However, this firm must recognise that the Chinese take a different approach to negotiation. Instead of using the Western contractual exchange approach, the Chinese adopt a relationship exchange approach. Butler and Leung (1998, p.387) explain: “In Western countries the process (negotiation) is seen as a business deal and is largely divorced from other aspects of society and from the negotiators’ personal and social lives. Often the negotiations, although influenced by past experience, are largely technical processes with technical outcomes. It is easy to describe the whole process as an exchange process... A developing schools of scholars who are looking at marketing as being based on “relationships” rather than “transaction” and this will lead to a negotiation process more akin to the Chinese ideal than to the “transaction” school.”
The author of this thesis is not advocating the sole use of relationship approach to Sino-foreign joint venture negotiation. Rather, the author argues that Western negotiators must adapt an approach that combines the "contractual exchange" and "relationship exchange" approaches to Sino-foreign joint venture negotiation. Buttery and Leung (1998, p.387) agree: "In case of China it would be misleading to see the negotiation process as a pure economic exchange process, rather it is more of a process of matching both the technical aspects of the product and service to the requirements of the buyer but simultaneously matching the friendship and trust generation aspects of doing business." As such, Western negotiators must match their contractual exchange to the Chinese relationship exchange approaches to generate a Sino-foreign joint venture negotiation model. The Western contractual exchange approach is consolidated from the business, psychological, and economic approaches to negotiation whereas the Chinese relationship approach is generated from the Chinese negotiating process and their negotiating culture.

In addition to different exchange approaches, both the Western and Chinese organisation will exert influences on their negotiators. For example, the Western firm will emphasise objectives such as market share, production volume, profit etc. whereas the Chinese counterpart will accentuate the transfer of technology, transfer of management and modernisation of plant etc.

The resulting Sino-foreign joint venture negotiation model is operating within the Chinese strategic context i.e. within the cultural, economic, political/legal and technological context.

The whole exchange process through joint venture negotiation is conducted under the assumption that China is a potential market within the international environmental context. Relevant sections of literature related to concepts are in parentheses.

The six research questions identified throughout the literature review are matched with concepts in regard to this analytical model. The matching process does not mean the literature can provide answer to the question. Rather, the relevant sections are the sources of generating sub-questions in the protocol to answer the main research questions (Perry 1994).

2.5.4 Preliminary Sino-foreign joint venture negotiation model

The analytical model, figure 2.26 in the previous section, motivates the author of this thesis to propose a Sino-foreign joint venture negotiation model. This model is shown in figure 2.27 and its associated strategies are contained in figure 2.28 below.
A comprehensive Sino-foreign joint venture negotiation model

Explanations:

- No 1 to 5 indicates the 5-stage negotiation process i.e. 1- pre-negotiation stage, 2- negotiation stage, 3- post-negotiation stage, 4- contract-signing stage and 5- post-contract signing stage. The English Alphabets A and B signifies Western and Chinese negotiators/parties accordingly. The English Alphabet A OR B with a number indicate the strategies used by western OR Chinese negotiators/parties at different stages accordingly. The strategies of western and Chinese negotiators will be explained in figure 3.2.
- The Chinese relationship culture and the Problem Solving Attitude (PSA) of the western and Chinese negotiators act as a supporting pillar throughout the whole negotiation process.
- If the joint venture negotiation is successful, the joint venture project will be implemented and its result will be evaluated by its outcome such as profit, sales, etc. This outcome is important to support a firm's future negotiation for new venture.
- In addition to the maintenance of this supporting pillar, western and Chinese negotiators are also influenced by their organizational context throughout the whole negotiation process.
- All the above are influenced by the Chinese strategic context that includes the political/legal, economic and the technological contexts.
- The Chinese strategic context is operated within the international environmental context.
Figure 2.28 The strategies used by party A (Western) and party B (Chinese) at different stages of the negotiation process
1- pre-negotiation stage, 2- negotiation stage, 3- post-negotiation stage, 4- contract-signing stage, 5- post-contract signing stage
Rationalisation of the model

In a firm's internationalisation process, it appreciates the international environment and identifies China as a potential market to enter. Its market identification process was explained in section 2.3.1. Because of its potential contribution to the Chinese "four modernisation programs" in terms of technology, capital, and management expertise as mentioned in section 2.4.1.1, joint venture becomes the most promising mode for this foreign firm to participate in the important Chinese market. The identification of a joint venture partner is strongly guided by the Chinese strategic environment. For example, the Chinese government may nominate a specific Chinese firm to negotiate for joint venture project with this foreign firm because the joint venture project falls in a regulated area of the "four modernisation programs" i.e. agriculture industry.

Hunger and Wheelen (1993) recognise that there are four strategic environmental variables i.e. economic, political/legal, cultural, and technological elements which the author of this thesis has specified on figure 2.26. However, the author of this thesis has noted:

- In term of System Theory (Checkland 1981 and Buttery 1988), the cultural element is so important for it to work as a component within the negotiation system. In this model, culture should work as part of a negotiating pillar to support the negotiation process rather than merely an environmental variable (section 1.3); and
- The Chinese relationship culture also suggested that cultural elements must be carefully managed throughout the whole joint venture negotiation process (section 2.4.4).

In view of the above, culture is an integral part of a Sino-foreign joint venture negotiation. If negotiation is a process of facilitating marketing exchange as mentioned by Buttery and Leung (1998), then culture is part of that marketing exchange process. This cultural exchange view is consistent with that of Wagner (1990), and Elashmaswi and Harris (1993). Usunier (1993, p194) concurs: "Marketing management needs to tailor to local contexts. An intercultural orientation to international marketing best serves a global strategic view."

In view of the above, Hunger and Wheelen's (1993) strategic contexts in a Chinese environment need to be re-arranged as follows:

Strategic contexts
- Economic,
- Political/legal, and
- Technological context.

Negotiation orientation/pillar
- Relationship culture
As shown in figure 2.26, after this international firm has decided to negotiate for a joint venture with a PRC partner, this international firm will be surrounded by the above strategic contexts. Relationship culture becomes the first component of the negotiation pillar to support the whole negotiation process.

Whilst the relationship culture supports the Sino-foreign joint venture negotiation process, the Chinese and foreign negotiators are influenced by the organisations to achieve their objectives. The organisational objectives of the foreign and Chinese firms are different. A foreign firm’s organisational objective is strategic. Western firms enter the Chinese market because of its market potential, profit potential and competitors’ presence whereas the Chinese firm’s objectives are to import technology, management expertise and procurement of capital (Kaiser et al 1996, Beamish 1993, Tsang 1993, Pomfret 1991). The differences in organisational objectives require negotiators of both sides to adapt a problem-solving attitude (PSA) to improve satisfaction in the negotiation outcomes that are consolidated on the joint venture contract. In addition to satisfaction improvement, negotiators of both sides must have PSA to solve problems of both parties throughout the whole negotiation process so as to obtain fruitful negotiation outcomes (Karrass 1970, Spector 1978, Graham 1986). Hence, PSA actually acts as a second component in that negotiation pillar. This negotiation pillar integrates the western concept of problem solving attitude (PSA) and the Chinese concept of relationship culture. Only with this negotiation pillar in mind can foreign and Chinese parties negotiate.

Both the foreign and the Chinese firms negotiate for a joint venture according to the five-stage negotiation process that was fully explained in section 2.4.3.2. The five stages are 1) the pre-negotiation stage, 2) the negotiation stage, 3) the post-negotiation stage, 4) the contract-signing stage, and the post-contract signing stage. The strategies that emerged at these stages are shown in figure 2.28 below. The sources of these strategies are from different parts of the literature review that are integrative in nature. For example, the strategy of “identification of common marketing and financial goals” by the Western negotiators at the pre-negotiation stage comes from sections 2.3.1.1 “OMF” approach, 2.3.2.3 “international JV strategic planning” and 2.4.1 “Chinese environmental context”. The integrative conceptualisation of these three areas gives Western firm a clear picture of the requirement of the Chinese counterparts. Also, the Western strategies of “collaborating”, “compromising” and “accommodating” originated from sections 2.3.3.1.3 “the IMD Business negotiation approach”, and 2.4.3.3 “Chinese negotiating strategies” suggest that foreign negotiators should not use conflicting strategies because of the importance of maintaining “guanxi” between the two parties.

According to System Theory (Checkland 1981 and Buttery 1988), figure 2.27 includes a feedback mechanism i.e. performance evaluation. The evaluative criteria are directly adopted from Golden (1988) and Beamish (1993):
Chapter 2- Literature Review

- Profit satisfaction,
- Market penetration,
- Management experience,
- Product sourcing,
- Creditability and reputation,
- Future investment, and
- Learning experience.

The Sino-foreign joint venture negotiation model figure 2.27 and strategies figure 2.28 will be pilot-tested and then field-tested by case study method as briefly discussed in chapter 1 and will be fully explained in chapter 3 of this thesis.

2.6 HOW CAN THIS RESEARCH BE BUILT ON?

The section on comparing and contrasting clearly indicates that Western and Chinese negotiation paradigms take a completely opposite approach. Western negotiators aim at short-term return on investment whereas Chinese negotiators adopt long-term perspective in market share. Furthermore, Western negotiators loosely treat relationship whereas their Chinese counterparts heavily emphasise on long-term relationship when entering into joint venture negotiation process. The two divergent paradigms clearly indicate a need to search for a joint venture negotiation model to help both Western and Chinese businessmen to negotiate for potential joint venture projects in the vast Chinese market. The need for such a model has been repeatedly requested by a number of Chinese commentators (Child 1991, Beamish 1993, Buttery and Leung 1998).

Non-existence of such a Sino-foreign joint venture negotiation model does not mean a deficiency in the Chinese joint venture negotiation literature. In fact, there is vast amount of literature concerning joint venture in China. However, the literature tends to be fragmented and attempts to investigate different areas of joint venture as indicated in the literature review, and is unable to fully explain the Sino-foreign joint venture negotiation phenomena. In addition to the fragmented nature, Western theories normally run into the problem of universality and attempt to apply the same approach to different markets. The Western cultural training approach is a typical example of this type.

2.6.1 Research Gaps

The above arguments clearly recognise that there are research gaps to be closed in order to fully explain the Sino-foreign joint venture negotiation phenomena. These research gaps will be summarised below.
Gap no. 1

Most researches to date are helpful in their analyses of some particular aspects in Sino-foreign negotiation but they lack an overarching perspective (Fan 1996). For example, Alder et al’s (1992) experiment on Sino-U.S. negotiation did not specifically refer to joint venture. Graham et al’s (1986) experiment on Chinese negotiation is conducted in an intra-cultural perspective and lack insight on Sino-foreign joint venture. Other commentators’ works do not have empirical evidence (Brunner et al 1989, Burry and Leung 1998). Lee and Lo (1988) generally investigated Sino-foreign negotiation without referring to a joint venture situation. It is difficult to combine these piecemeal findings to help businessmen to survive in a Sino-foreign joint venture situation. Thus, it is vital to establish a more comprehensive joint venture negotiation model that is holistic in nature to specifically target the vast Chinese market.

Gap no. 2

The Chinese cultural element guanxi has been equated to relationship and has been empirically tested previously (Leung et al 1996, Xin and Pearce 1996). Tsang (1998), Burray and Leung (1998) and Leung (1997) recently challenged this equation by including more variables, i.e. face, renqing, reciprocity, and trust in the relationship construct. However, the new relationship construct has not been empirically tested. This study is exploratory in nature to test this new relationship construct in a Sino-foreign joint venture negotiation environment so that this gap in relationship research in China can be closed.

Gap no. 3

Third, cross-cultural research is vital in the negotiation area. Keegan (1995) recognises that western negotiator like bringing his/her 'ethnocentrism' to the cross-cultural negotiation table. The findings of this study help international negotiators avoid using self-cultural reference criteria to formulate their negotiation strategies.

Gap no. 4

The importance of environmental context has been emphasised by international marketing authorities (Kolter 1994, Keegan 1995, Kublin 1995). However, Fan (1996) concluded that there is a lack of research in the Chinese environmental context after he reviewed existing literature for Sino-foreign joint venture. This study provides an exploratory view on Sino-foreign joint venture negotiation.

Gap no. 5
Chapter 2 - Literature Review

The problem-solving attitude (PSA) identified in the Western literature has never been tested in a Sino-foreign joint venture environment. This study argues that it is a vital component and empirically tests its influence in Chinese environment.

2.6.2 How do the research gaps be linked with the rest of this study?

This thesis will close the research gaps identified in section 2.6.1:

A holistic perspective

The author of this thesis is going to develop an integrative Sino-foreign joint venture negotiation model. The author of this thesis is to integrate the Chinese environmental context, the organisational context, the Chinese negotiation process and the Chinese negotiation culture to form a holistic Sino-foreign joint venture negotiation model. This holistic Sino-foreign joint venture negotiation model and its associated negotiation strategies are presented in figures 6.2 and 6.3 in chapter 6. The establishment of this holistic Sino-foreign joint venture negotiation model is to advance research in the same area. For example, this research investigates Sino-foreign joint venture negotiation from 'the outside in' or from the foreign negotiator’s prospective, a future study in the same area can concentrate on an ‘inside out’, that is the Chinese prospective. The ideal investigation in the future will be a comparison of these two prospective.

A new relationship construct

As shown in sections 2.4.4.2 and 2.6.1 of this chapter, the Chinese relationship cultural elements have never been empirically tested in previous research. The author of this thesis is going to test this Chinese relationship cultural construct in the individual within case in chapter four and again in the cross-case analysis in chapter 5 section 5.5.1. The establishment of this relationship helps foreign negotiators improve their understanding on the extent of using this construct.

Cross-cultural research

As explained in section 2.6.1, there is insufficient cross-cultural research in this area. Also, the author of this thesis has indicated throughout the literature review in this chapter that universality is one of the limitations of existing literature. The author of this thesis is going to help the foreign negotiators to appreciate the importance of culture in a cross-cultural scenario. For example, recommendations on improving the cultural understanding will be given in section 6.3.6.1 in chapter 6.
Sino-foreign joint venture negotiation strategies

Presently, negotiation strategies are available in an intra-cultural environment as explained in section 2.3.3.1.3 in this chapter. However, these strategies have not been tested in a Sino-foreign negotiation environment. This gap will be closed because the author of this thesis is going to do them in this study. For example, these strategies will be tested in the within-case analysis and again in section 5.4 of chapter 5. Recommendations of strategies will be given in 6.3.5 of chapter 5.

The problem-solving attitude (PSA)

This concept has been repeatedly tested in a Western environment as explained in section 2.3.3.2 of this chapter but it was not tested in a Sino-foreign negotiation environment. The author of this thesis will close this research gap by testing it in a Sino-foreign joint venture negotiation environment. For example, this concept will be tested in the within case analyses in chapter 4 and in section 5.5.2 of chapter 5. Recommendations will be given in section 6.3.6.2 of chapter 6.

2.6.3 Chapter conclusion

This chapter has fulfilled its objectives by firstly establishing a common Sino-foreign negotiation definition. It then reviewed the Western and Chinese literature related to joint venture negotiation according to this definition. During the literature review process, a list of research questions emerged. It also compared and contrasted the Western and Chinese literature to determine the similarities and differences between Western and Chinese joint venture negotiation. An analytical model was developed to generate a preliminary Sino-foreign joint venture negotiation model. Major research gaps and linking with the rest of this study were also identified. The work of fulfilling these objectives will be summarised below.

Environmental context

The Western view on environmental context is based a set of scientific evaluative criteria. The joint venture negotiation process starts from a firm’s consideration of a potential country candidate’s environment. The OMF, TCA and EA approaches of environmental context evaluation are based on universal marketing theories and models on market identification. They emphasise on a firm’s employment of different criteria in analysing the country candidate for joint venture establishment.

On the contrary, the Chinese view on environmental context is based on perception of the country’s unique strategic framework (Hunger and Wheelen 1993) that consists of: 1) the economic, 2) the political/legal, 3) the cultural, and 4) the technological contexts.
Economic - The Chinese government “four modernisations” program has motivated foreign enterprises to form equity and contractual joint ventures (EJVs and CJVs) with Chinese state owned enterprises (SOEs). These joint ventures concentrate on improving technologies, overall product qualities and management of outdated State Owned Enterprises.

Political/legal – the Confucian’s concepts of hierarchy and harmony dominate the Chinese political/legal administrative systems. The Chinese Communist Party (CPC) formulates the policies and laws that will be rubber-stamped by the National People’s Congress. The ministries at State level formulate rules and regulations in a broad context according to these policies and laws and allow lower level ministries to interpret these rules and regulations into local regulations so long as these regulations are not in conflict with the central government. Regarding the legal application process, it is not only complex and bureaucratic but also require tight co-operation and careful handling by both foreign and Chinese partners. In the interim, joint venture negotiation may collapse if both parties develop adverse relationships and do not process a Problem Solving Attitude (PSA) to handle the application procedures.

Culture – the Chinese concepts of “jen” and “lun” generate “five luns” (pronounced as wulun - the five relationships) within a Chinese society i.e. ruler and subject, father and son, husband and wife, elder brother and younger brother and friend and friend. By practising moral excellence (jen) that is hierarchically ordered by the five relationships, social harmony can be achieved.

Technology - Sino-foreign joint ventures have been transferring Western technologies to modernise the Chinese economy. However, the non-tacit and tacit problems have hindered the process of transferring Western technologies into China. Non-tacit problems include difficulties in domestic material procurement and improper logistic arrangement whereas tacit problems involve in difficulty in recruitment of management personnel and the applications of outdated management concept on modern technologies by the Chinese partners.

Organisational context

According to Western view, a firm evaluates its own and its potential partner’s organisational context and determines a strategic plan for the joint venture that fit the requirements of both parties. The value chain approach recognises the importance of a firm’s linking its internal functional activities with its external environment and allows this firm to formulate a competitive business strategy that is either cost leadership, differentiation innovation, or focus oriented. In an international joint venture scenario, the negotiators of two venturing firms evaluate their business strategies in terms of four components proposed by Lengnick-Hall and Lengnick-Hall (1990) that emphasises on strategic competitive advantage. The resources of these two firms are complimentary to one another and the operations of the joint venture must be synergistic in nature and strategically fitted into their value chains!
Whilst the Western firms emphasise on competitive advantage and synergy, the Chinese organisational contexts are different. There are three different forms of organisation in the Chinese economy, i.e., State-Owned Enterprises (SOEs), Collectively-Owned Enterprises (COEs) and Private Enterprises. The SOE and COE are owned by the State and produce products and services according to the State plans whereas the private enterprises are playing a supplementary role in the Chinese economy to manage the industries that are not regulated by the State. SOEs are more suitable for foreign firms to engage in broader scale of operations because of their flexibility in the areas of marketing, material procurement and human resources. COEs are more appropriate for foreign firms that want to have production only facilities in China. Chinese government does not normally allow foreign enterprises to joint venture with private enterprises because of their supplementary role in the Chinese economy.

Historically, Chinese have been lacking of security and like dealing with someone they are familiar with therefore relationship building is an important strategy for foreign negotiators to deal with their Chinese counterparts. The Chinese negotiators follow rules and regulations to deal with foreign negotiators at private level but reveal their private goals at private or informal level.

Negotiation process

The Western concept of negotiation emphasises on transaction and recognises that negotiation is a stage-wise goal-directed resolution process. There are three stages in the Western negotiation approach: 1) the pre-negotiation stage, 2) the formal negotiation stage, and 3) the contract signing stage. At the pre-negotiation stage, each party collects information of the other party and develops various options or alternative scenarios with objectives and goals. The nature of interdependence such as sharing of resources and percentage share of business calls for relationship maintenance that generates interpersonal attraction between the two parties. During the formal negotiation stage, the two negotiating parties adopt a problem-solving attitude (PSA) that encourages them to collect further information. PSA allows negotiators to assess negotiation atmosphere and conceive them to employ a mixture of negotiating style, i.e., collaborating, compromising, accommodating, controlling and avoiding. A win/win situation can be achieved through mutual understanding of the other side’s needs and under a co-operative negotiation environment. However, if the two parties cannot establish interpersonal attraction, they may use the distributive attitude that limits the information exchange between the two parties and result in a win/lose situation. Both parties will sign a contract to include all issues agreed at the contract signing stage. After signing the contract, both parties will start their working-party relationship.

The Chinese negotiation process is established on a relationship platform. It has five stages: 1) the pre-negotiation stage, 2) the negotiation stage, 3) the post-negotiation stage, 4) the contract-signing stage, and 5) the post-contract signing stage. The progress from one stage to the next was found to
highly correlate with the Chinese legal framework for joint venture establishment. Re-negotiation can happen after the formal negotiation stage because the Chinese perceive contract is a commercial paper and a start of long-term relationship. Re-negotiation is just an act to consolidate that long-term relationship. The Chinese attempt to use collaborating strategy and suddenly change their demand to put the other side at a disadvantage.

Negotiating culture

The Western literature on culture is mainly based on Hofstede's (1984 1991) identification of five global cultural dimensions i.e. power distance, individualism, masculinity, uncertainty avoidance and long-term orientation. However, his works imply that the theories and models, mainly developed in Western countries, cannot be directly applied to different cultures. However, the operationalization of these five dimensions into a specific culture remains unknown.

Harris and Moran (1993) argue that cultural differences identified by Hofstede (1984 1991) result in unique communication pattern in a particular culture. They proposed a communication model that includes three stages 1) establishing rapport 2) exchanging information and 3) persuasion. Western negotiators quickly establish rapport; exchange concise information; and persuade the other side on the basis of providing superior technologies, good brand names etc. They put less emphasis on establishing personal relationships and urge business relationships once negotiation finishes. This communication model demonstrates a step-by-step approach in business communication but its application in cross-cultural context is limited because the cultural factors are not included.

In recognising the needs of cultural awareness, Westerners, especially the American, have developed cultural training programs to help their managers to operate in a cross-cultural or international context. These training programs provide knowledge on various cultural variables such as language skills, concepts on space, concept on time and body language of different cultures.

Basing on Hofstede's global cultural dimensions (1984 and 1991), Buttery and Leung (1988) have identified Chinese culture has a high index in power distance, a low index in individualism, and a high index on long-term orientation. These three cultural characteristics have transformed into distinctive Chinese negotiating dynamic that is represented by six cultural elements i.e. network, guanxi, face, reciprocity, renying and trust. The Chinese negotiating dynamic needed to be carefully managed during joint venture negotiation to avoid cultural clash.

The above process of literature review on the Western and Chinese paradigms generated six research questions that help answer the main research problem in section 2.1.1.
Model development

The section included a 'compare and contrast' section to determine major similarities and differences on Western and Chinese joint venture negotiation. Based on this compare and contrast, a holistic conceptualisation of the Sino-foreign joint venture negotiation was developed which derives an analytical model. A preliminary Sino-foreign joint venture negotiation model was established.

Further research

This study identified five research gaps in section 2.6.1 that need further research in the Sino-foreign joint venture negotiation area.

The linkage between research gaps and the rest of this study

The linkages between research gaps and the rest of this study was discussed in section 2.6.2 in this chapter. Essentially, these research gaps will be closed after this study is conducted.

This chapter has three findings. First, the author of this thesis found that the Western transaction paradigm attempts to use a universal approach whereas Chinese relationship paradigm is unique in a sense that relationship is emphasised at different levels, i.e. the strategic environmental context, organisational context, negotiation process and cultural level. The issue of universal Vs unique in Western and Chinese paradigm gave birth to a set of research questions. Second, an analytical model was conceived based on the similarities and differences between western and Chinese literature that helps conceptualisation of a preliminary Sino-foreign joint venture negotiation model. Finally, the conceptualising this preliminary Sino-foreign joint venture negotiation model helps identification of major research gaps.

The above three findings help the author of this thesis 1) to develop a research protocol based on a set of research questions in the methodology chapter 3; 2) to pilot test the preliminary Sino-foreign joint venture negotiation model and to conduct fieldwork in methodology chapter 3; and 3) to establish evidence in chapter 4, 5 and 6 to close the research gaps.

In summary, this chapter is an important chapter to establish necessary conceptual context of this study. The methodology of carrying out this research is contained in chapter 3.
CHAPTER 3 METHODOLOGY

3.1 INTRODUCTION

Chapter 1 found that case study method is the most appropriate methodology to carry out this research.

Chapter 2 established a set of research questions based on the studying of the Western transaction and the Chinese relationship paradigm on joint venture negotiation. It also conceptualised a preliminary Sino-foreign joint venture negotiation model.

The major findings affect the construction of this chapter. This chapter will firstly provide an epistemological justification for the use of case study methodology that the author of this thesis identified in chapter 1 with an in-depth discussion on case quality assurance system and research design. Second, it will pilot-test and amend the preliminary Sino-foreign joint venture negotiation model that the author of this thesis developed in chapter 2 to determine the comprehensiveness of this model. Third, it will assure the comprehensiveness of the research questions by employing System Theory that the author of this thesis developed in chapter 2. Finally, it will discuss the triangulation process of case studies.

This chapter contributes to the overall development of this thesis:

- It justifies case study method is the most appropriate method of carrying out this research;
- It determines the comprehensiveness of the Sino-foreign joint venture negotiation model that the author of this thesis developed in chapter 2 to be field-tested in chapter 4; and
- It substantiates the comprehensiveness of a set of research questions to be included in the research protocol to conduct company interviews so that the author of this thesis can report case summaries in chapter 4 and comprehensive case reports in appendix e.

3.1.1 Chapter objectives

The major objectives of this chapter are:

1. To justify case study method is the best methodology among others to conduct this research;
2. To discuss the quality assurance system of case study method;
3. To specify the sampling design and data collection method;
4. To develop a comprehensive Sino-foreign joint venture model negotiation based on the analytical model developed in chapter 2 of this thesis;
5. To prove the comprehensiveness of the Sino-foreign joint venture negotiation model;
6. To assure the comprehensiveness of the research questions identified in chapter 2 by using system theory;
7. To present the definitive case study protocol;
8. To explain the triangulation process of cases; and
9. To determine the limitation of the research design.

3.1.2 Chapter structure

The preliminary model presented in figures 2.27 and 2.28 was briefly discussed in section 2.5.4. This chapter is to discuss the most appropriate research paradigm among research paradigms of Positivism, Critical Theory, Constructivism and Phenomenology (action research and case study methodology) to conduct the empirical test of this research by taking the realism of this joint venture negotiation model into consideration. After the case study research method is justified, construct validity, internal validity, external validity, reliability and bias will be discussed to ensure the quality system of case study method is intact. Its sampling design and collection method is elaborated.

The comprehensiveness of the Sino-foreign joint venture negotiation model will be justified and its preliminary case study protocol will be presented. The comprehensiveness of the case study protocol will be determined by the use of system theory. The quality assurance system of the fieldwork is to be discussed. Methods of triangulating the qualitative data are presented. The limitations of the case study method will be explored which is followed by a chapter conclusion.

3.2 DISCUSSION OF MAJOR RESEARCH PARADIGMS

The objectives and the structure of this chapter were presented in section 3.1. This section is used to discuss major research paradigms and to justify case study is the best methodology and its realism among other research paradigms.
3.2.1 Positivism

One of the major research paradigms that appeared in the literature is logical positivism. Rudner (1966, p.10) defines it as “a systematically related set of statements, including some law-like generalisation, which is empirically testable.” This definition implies that a vigorous research tool that consists of a set of strictly defined statements is applicable to a group of target respondents to obtain measureable feedback for a research phenomenon. Hunt (1982) recognises that the importance of positivism in theory development and suggests that a logical positivist explanation remains one of the most viable approaches available to explain a phenomenon. An analogy is that physical scientists manufacture regular, law-like outcomes in their empirical work by creative experimental contexts that put into effect their knowledge of underlying molecular and kinetic mechanisms. This research strategy is summarised by the basic explanatory formula: “regularity = mechanism + context” (Pawson and Tilley 1997, p. 71). However, the major weakness of this approach lies in the problem of isolating the people under investigation from their social context and reducing human beings to a set of statistical variables (Wong 1997). In other words, causality can never be conclusively verified and the positivist approach generally reflects the best explanation that science can provide at a given point in time. The same reason has turned social scientists away from positivism (Ladwig 1996).

This approach is rejected because:

- Sino-foreign joint venture negotiation is a causally complex phenomena and the period of negotiation can be extended over a considerable period of time, positivist approach cannot be adopted because respondents’ poor memory recalls produce bias on the research instruments; and
- As stated in the realism section, the outcome of a Sino-foreign joint venture negotiation is unpredictable. In other words, the outcome is not a regularity as a positivist attempts to predict. Again, the positivist approach is not appropriate in this study.

3.2.2 Critical Theory

Whilst positivists use a ‘hard’ or vigorous scientific approach in social inquiry, ‘Critical Theory’ provides a relatively ‘soft’ or more humanistic alternative. It was used by a group of German social scientists known as the Frankfurt School to conceive the nature of society as historical totality, rather than an aggregate of mechanical determinants or abstract functions and is concerned with “unveiling ideological mystification in social relations” (Morrow and Brown 1994, p.7). It uses distinctive capacities for empathy and “self reflection” to pursue distinctive goals of communication and enlightenment (Miller 1987, p.5) and aims at “analysing the objective structures that constrain human imagination” (Morrow
and Brown 1994, p.9). The analysis emerged should be taken the form of indifferent, value-free contemplation of social reality, but should be engaged consciously with the process of its transformation. In this sense, "Critical Theory" is used to do social theorising.

"Critical Theory" differs from the positivist approach in at least two aspects. First, 'social facts' are qualitatively different from the 'facts' of nature because they are created and re-created by their own actions as human beings (Morrow and Brown 1994). Giddens (1982, p.13-14) puts it "in social theory, we cannot treat human activities as though they were determined by causes in the same way as natural events are. We have to grasp what I would call the double involvement of individuals and institutions: we create society at the same time as we are create by it... social systems are the buildings that are at every moment constantly being reconstructed by the very bricks that compose them." Second, humans create society; the application of sociology or social science is not really analogous to controlling physical nature. Human beings have a unique capacity to change their behaviour in response to knowledge about it; as a consequence the regularities of social life are always in flux (Morrow and Brown 1994). Giddens (1982, p.14-15) concurs: "if we regard social activities as a mechanical sets of events, determined by natural laws, we both misunderstand the past and fail to grasp how sociological analysis can help influence our possible futures."

Positivists concentrate on those aspects that natural and social science may have in common descriptions and search for invariant laws. Critical Theorists explore those aspects that separate the two, and attempts to avoid the extremes of the interpretivist reduction of explanation to meaning (Morrows and Brown 1994). Thus, Critical Theorists recognise social explanations are relatively incomplete, approximate and contestable and the method to study social phenomena can only be decided by reference to judgements about the nature of the thing to be explained (Sayer 1992). Hence, the concept of variables may be used but not in a statistically defined terms.

The methodologies of the Critical Theorist also differ from those of positivists that are broadly classified as non-empirical and empirical research strategies. The non-empirical research strategies are widely characterised as reflexive methods that include 1) meta-theoretical argumentation or philosophical (rational) criticism, especially the status of 'logic' as a part of methodology; 2) deconstructive and historicist argumentation as part of theory evaluation; 3) existential argumentation and 4) normative argumentation. Philosophical criticism or 'formal logic' is conceptualised as part of heuristic devices that can, in the appropriate context, instruct argumentation. Historicist argumentation is that knowledge of the context and conditions in which particular research findings can be relevant to evaluation and ultimate validation of a social phenomenon (Calhoun 1992). Deconstructive technique is a kind of rhetorical analysis that shows how language mediates human understanding and provides important new interpretations of theory and research processes (Brown 1992, Hunter 1990). Existential argumentation is to use insider knowledge as a source and claim for any social group and that mediating principles of knowledge becomes necessary for a comprehensive understanding of social life across existential
differences (Lather 1991, Nielsen 1990). Normative argumentation is a rational technique of persuasion to uphold normative or value propositions (Borrow and Brown 1994). The conscious use of these non-empirical methodologies in “the setting up, execution, writing up, and application of research become important aspects of Critical methodologies” (Morrow and Brown 1994, p.232).

Empirical research strategies include 1) comparative studies, 2) ethnography and participant observation and 3) participatory action research. Comparative method is defined as the methods of agreement and difference (Mills 1967). Ethnography and participant observation involves a focus on the structural, action, or mediational levels of social inquiry through actual participation with ‘live’ events whose meaning has immediate practical significance (Morrow and Brown 1994). Participatory action research requires a researcher to participate as a full member in the study (s)he is investigating which actually change that researcher’s role from an ‘outsider’ to an ‘insider’ perspective. These strategies normally require a researcher’s judgements on the quality of action and therefore a central theme of these strategies is “from which site might research be carried out from which it could claim to judge the quality of actions” (Wilkins 1967, p.24)? In solving this site selection problem, Critical Theorists have followed the approach of “objectivity of scientific method” (Wilkins 1967). Critical Theorist approach processes the traditional scientific paradigm of experimental manipulation and observation of effects. For this to be possible it must be assumed that the researcher 1) is able to be both present to the action; 2) is absent from the action (Phillipson 1981). The combined effect is to allow the research to manipulate a social phenomenon that is the action under investigation and to observe the action without affecting it (Phillipson 1981). Because of its potential to improve or to manipulate a social phenomenon, the strategies have been consistently be applied to school improvement (Cory 1953, Elliott 1981) and community improvement programs (Collier 1945).

In summary, Critical Theorist approach provides non-empirical and empirical methods for social theorising. However, the non-empirical methods cannot be employed because soliciting empirical support for the sino-foreign joint venture negotiation is the main aim of this study. The empirical methods are not appropriate because:

- The author of this thesis is not in a position to formulate problem definition with the actors i.e. negotiators in this study because the problem is regarded as commercial secret;
- The author cannot present to the problem i.e. joint venture negotiation situation and absent from the problem i.e. as an observer because of the same limitation as stated above; and
- The timeframe of joint venture negotiation simply rule out the possibility of the author’s presence in the “program”. Some Sino-foreign joint venture negotiation lasted for seven years (Yan 1995).

Based on the above arguments, this research strategy is rejected.
3.2.3 Constructivism

Constructivism is another major research paradigm. In their evaluation study, Guba and Lincoln (1981) argue that all the initiatives and programs which go under the microscope cannot and should not be treated as 'independent variables', as 'things', as 'treatments', as 'dosages'. Rather, all social programs are constituted in complex processes of human understanding and interaction. Their key claim is that whatever the program, in whatever the circumstances, it will 'construct' through a process of reasoning, change, influence, negotiation, battle of wills, persuasion, choice increase (or decrease) and arbitration (Pawson and Tilley 1997). In other words, Constructivism attempts to accommodate 'stakeholders' by the dozen and stipulates that the quest to understand human meanings is the defining feature of social inquiry. Clearly, the concept of Constructivism investigates deeply the root of a social phenomenon that implies every investigation is unique and its findings cannot be generalised to another similar social phenomenon. Guba and Lincoln (1989 p.45) admit: "Phenomena can be understood only within the context in which they are studied; findings from one context cannot be generalised to another problems nor their solutions can be generalised from one setting to another."

Instead of 'isolating' or 'eliminating' the phenomena from its social context, Constructivism attempts to replace other research paradigms with 'context hopping' (Pawson and Tilley 1997). To hop on all possible elements within that context, Constructivism emphasises an exchange of meaning between the research and all program participants. Pawson and Tilley's (1997, p.21) view Constructivism as a theoretically practical but an agnostic approach. "To put this matter in a slightly more practical vein, we can say of any prolonged period of field observation or of any cycle of evaluation negotiations that will generate thousands upon thousands of separate thoughts and actions that are open to infinite number of descriptions." Its agnostic nature does not allow researchers to include independent judgements and propositions cannot be made in their studies (Pawson and Tilley 1997).

In summary, Constructivism emphasises the:

- Accommodating of all 'stakeholders' opinions and the quest to understand human meanings is the defining feature of social inquiry;
- Investigating of detailed context surrounding of a social phenomena which means every investigation is unique and therefore generalisation is impossible; and
- Making of independent judgement which is not allowed because of its emphasis on 'totality' of context investigation.

In view of the above, Constructivism is not an ideal research paradigm for this study because:

- Limitation in time and resources confines the author of this thesis from being able to include all participants in the joint venture negotiation process in this study;
- Generalisation of the joint venture negotiation process to other PRC negotiation assignments is the aim of this research; and
• The author’s independent judgements in this study are important to give concrete conclusions on a company’s compliance with the joint venture negotiation process proposed. Based on the above arguments, Constructivism is rejected.

3.2.4 Phenomenology

Phenomenology is a reasoned inquiry that discovers the inherent essences of appearances. An appearance is anything of which one is conscious and this consciousness is originated from the mind (Stewart and Mickunas 1990). It is this concept of consciousness that divides phenomenology from quantitative methods of natural science because quantitative scientists treat consciousness as an empirical phenomenon that can be investigated by quantitative methods. Phenomenologists insist that quantitative methods of science are not adequate to treat the nature of consciousness- principally for two reasons because 1) consciousness itself is not an object among other objects in nature; and 2) there are conscious phenomena that cannot be dealt with adequately by means of quantitative methods of experimental science (Stewart and Mickunas 1990).

The exclusive application of the scientific method as adequate to an investigation of all reality excludes those phenomena that are not open to the analysis of “consciousness”. In short, phenomenology does not limit its investigations only to those realities which are objective in a materialistic or naturalistic sense. Consequently, phenomenology offers a considerable broadening of the range of philosophical inquiry inasmuch as phenomenologists make no assumptions about what is or is not real; they rather begin with the content of consciousness- whatever that content may be – as valid data for investigation. Stewart and Mickunas (1990, p.126) argue: “The social world is primarily the lived-world as understood by common sense. Thus, we act in the world rather than observe it as disinterested scientists... The real is not based on empirical or logical inference or a predictive judgement but on a predicative understanding of the world. Therefore the social sciences, phenomenologically considered, deal not with the question of the reality of the world but rather human relationships within this world.”

The above arguments identify phenomenology from the positivist paradigm. A positivist actually acts as an outside observer and treats him/herself as an “independent” experimenter (Wilkins 1967) whereas a phenomenologist admits that he/she is an inside observer of the phenomena. According to Perry (1994), case study research strategy is the main methodology in the paradigm.

3.2.4.1 Case study

This strategy has widely been used in social science (Allison 1971; Chandler 1986; Kanter 1977; Mintzberg and Waters 1982; Neustad and Fineberg 1978; Pettigrew et al 1992). Other writers (Daft 1983; Dubin 1982; Mintzberg 1979) advocate that a researcher’s direct interactions with executives within firms are absolutely essential if they attempt to do contextually plenteous research. In fact, the
case study approach has been repeatedly employed to inquire contextually embedded explanations of strategy process and outcomes (Daft and Buenger 1990; Ellis 1995; Gummesson 1991; Pettigrew 1992; Yin, 1994).

Schramm (1971) suggests that case study is used to investigate the questions of why, how and what on a decision or a set of decisions for a specific situation. Yin (1994) recognises that case study is an empirical inquiry that investigates a contemporary issue within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident. In other words, it is used when the research intends to cover the contextual conditions that are highly pertinent to the phenomenon under investigation. More specifically, case study strategy is used to explain the causal links in real-life interventions that are too complex for the survey or experimental strategies. It is also employed to explore those situations in which the intervention being evaluated has no clear, single set of outcomes.

Case study strategy, in general, has the research characteristics that are suitable for this study because this study has no predictive power in negotiation outcome and case study attempts to explore phenomena in similar situations. Therefore, case study seems to be an appropriate strategy for this study. Also the realism present below also indicates that case study is suitable for this research.

3.2.4.2 Realism

Realism is concerned about “searching, albeit necessarily imperfectly, towards an understanding of common reality of economic system in which many people independently” (Perry et al p.1955). Realists are concerned about whether the descriptions of unobservable are approximately true. Realism is justified when a theory is entailed by the best causal account of all evidence, when all reveal are considered. In saying that, successful outcome of a social program can only be materialised when the appropriate ideas and opportunities are introduced (mechanisms) in the appropriate social and cultural conditions (context) i.e. “outcome = mechanism + context” (Pawson and Tilley 1997, p.57). What counts as appropriate is further specified by describing what circumstances make the causal account definitively the best. Further, justifications of relevant facts depends not just on data, but on the background propositions (Miller 1987).

The realistic foundation of this thesis i.e. Sino-foreign joint venture negotiation lies in the logic presented in figure 1.1 of chapter 1, figures 2.26, 2.27, and 2.28 of chapter 2 to generate a Sino-foreign joint venture negotiation model; and the methodology in this chapter to ensure the phenomena is justified without prejudice.

The process of justification without prejudice is briefly described. The generation of this Sino-foreign joint venture negotiation model relies on making a balance between the unobservable and the observable. The unobservable is related to elements such as implications of Chinese historical development on the Chinese negotiating culture. The observable is elements such as Chinese negotiating culture on joint
venturing projects. This balance is again dependent upon the resources that the researcher of this thesis has. The limitation in resources will influence the approximation of the Sino-foreign joint venture negotiation model. For example, the Chinese negotiating culture can really be traced back to the Chinese philosophical and psychological development. Also, observation is limited to those elements that are absolutely important to negotiation but excludes those elements that may be indirectly related to joint venture negotiation. For example, the complex psychology of negotiators is excluded. In addition, the author reasonably assumes that some elements that were discussed in the literature review in chapter 2 but are not included in the model can affect the Chinese negotiation process. For example, the value chain and the strategic joint venture planning process discussed in the Western literature are important but are excluded from the model because the author assumes that these concepts are consolidated on the conditions of negotiating plans. The concepts are further reflected in the information exchange between the Western and Chinese negotiators.

The comprehensiveness of this model can only be tested by conducting in-depth interviews with experienced foreign negotiators. The comprehensive Sino-foreign joint venture negotiation model generated from the above will be justified by replications through interviewing top foreign negotiators. In saying that, the author can only be an outside observer without actual participation in the negotiation process and attempts to match the incidents cited in the case to the theoretical proposition. Easton (1998, p.73) argues that “only realism has properties which ensures a match with the particular characteristics of case research and thus provide a justification for case base knowledge claims.” By applying the research protocol to Western firms, the replication of the Sino-foreign joint venture negotiation model will be approximated. The exact replication procedures are detailed in relevant sections in this chapter. These replications, however, are not exactly the same. As Popper (1959, p.420-421) rightly points out:

“All the repetitions we experience are approximate repetitions; and by saying that a repetition is approximate I mean that the repetition B of an event A is not identical with A, or indistinguishable from A, but more or less similar to A. But if repetition is thus based upon mere similarity, it must share one of the main characteristics of similarity; that is, its relativity. Two things that are similar are always similar in certain respects.”

The variables listed on the model are casually complex and cannot be defined in an experimental type of study. For example, the relationship of variables of Chinese organisational context and the negotiation process cannot be hypothesised to have either positive or negative relationship because these two variables are subjected to other influences such as bureaucratic policies that are unpredictable.

The model cannot give a definitive negotiation outcome. In other words, the model does not suggest either a positive or a negative outcome even when foreign negotiators follow the whole joint venture negotiation model. It simply explains the phenomena and suggests possible strategies so as to improve that negotiation outcome.
The above realism and the description of case study method in previous section preliminary justify that case study is an appropriate method to carry out this research and its full justification is depicted in section 3.2.3.

3.2.5 Justification of case study strategy

In section 3.2.1.4, the case study research strategy of the phenomenology paradigm was identified as a potential research strategy for this study. This section is used to justify its suitability for this study.

Yin (1994) recognises that five types of research strategies are available to a researcher i.e. experiment, survey, archival analysis, history, and case study. The adoption of a particular research strategy is depended upon:

- The purpose of the research i.e. exploratory, descriptive, or explanatory in nature;
- The conditions of the research i.e. the types of research question posed; the extent of control an investigator has over actual behavioural events; and
- The degree of focus on contemporary as opposed to historical events.

Relevant situations for different research strategies are listed on column 1 figure 3.1. A basic categorisation scheme for the types of research questions is concerned about “who”, “what”, “where”, “how”, and “why” which is listed on the second column. The third column is concerned about whether the behaviour is being controlled and the fourth column is focused on the contemporary issue.

### Figure 3.1 Relevant situations for different research strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Form of research question</th>
<th>Requires control over behavioural events?</th>
<th>Focuses on contemporary events?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experiment Survey</td>
<td>How, why</td>
<td>yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Survey</td>
<td>Who, what, where, how</td>
<td>no</td>
<td>Yes</td>
</tr>
<tr>
<td>archival analysis</td>
<td>many, how much</td>
<td>no</td>
<td>Yes/no</td>
</tr>
<tr>
<td>History</td>
<td>Who, what, where, how</td>
<td>no</td>
<td>Yes/no</td>
</tr>
<tr>
<td>case study</td>
<td>many, how much</td>
<td>no</td>
<td>No</td>
</tr>
<tr>
<td></td>
<td>How, why</td>
<td>no</td>
<td>Yes</td>
</tr>
<tr>
<td></td>
<td>How, why</td>
<td>no</td>
<td>Yes</td>
</tr>
</tbody>
</table>


The tentative model in chapter 2 has three important characteristics that deserves special attention:

- It is a dyadic process and contemporary in nature;
• The boundaries between the negotiation phenomenon and its surrounding environmental context cannot be clearly isolated; &
• The Chinese negotiating cultural elements described are not mutually exclusive.

The above characteristics imply that the Sino-foreign joint venture negotiation process is causally complex which can only be thoroughly investigated in an experiment (Ragin 1987 p.26). Only with an experiment is it possible to explore different composition of conditions and 'unravel' the causal complexity of business activities. However, experimental conditions are not suitable to many social research problems. Social scientists wish to examine well-defined phenomena taking place in their natural settings. These natural settings have multiple and conjectural causes which requires the use of research tools that are compelled to the experimental design. As Ragin(1987, p.29) explains: “Only when naturally occurring data approximate experimental designs is it possible to decipher the order-in-complexity that seems apparent in these phenomena.”

Experiment, in this sense, is not an appropriate strategy for this research because:

• The negotiating culture in a real negotiation exercise simply cannot be controlled in an experimental situation or otherwise they are not in a natural setting; and
• The cultural elements suggested by the process imply that negotiators must have good relationship among themselves in order to carry out joint venturing project negotiation which make the recruitment of “negotiators” impossible.

Therefore, the use of experimental research techniques is not a viable proposition.

Historical approach and archival analysis are also not appropriate. The historical approach does not concern a contemporary issue that is an important aspect of the tentative Sino-foreign joint venture negotiation model. Archival analysis that calls for an examination on business record is also not endorsed. It is difficult if not impossible for the researcher to have full co-operation from organisations being studied to reveal their internal business records. In addition to this difficulty, the archival analysis does not employ the direct observation and systematic interviewing techniques and it cannot capture the information related to the negotiating culture that is important to the tentative Chinese negotiation model presented in chapter 2.

The final two strategies available are survey and case study. Survey research attempts to derive board generalisations rather than specific details, and typically engages in the testing of abstract hypotheses stemmed from general theories concerning relationships between phenomena, or variables, of social units. In variable oriented research “the rigor of the experimental method is approximated through the use of statistical manipulation” (Ragin 1987, p.32). This involves development of assumptions concerning the operation of contextual variables. In other words, “survey research techniques, in their
pursuit of degree of freedom, tend to move away from complex, conjectural arguments” (Ragin 1987, p.68). Also, it aims at collecting information at a snapshot (Churchill, 1991). If the research method is employed, the author of this thesis will have to obtain information at different stages of the negotiation process to ensure the data collected from respondents are longitudinal in nature and not bias. However, some of the reported cases on Chinese negotiation on joint venture lasted for 7 years (Yan, 1995) which simply rules out the possibility of relying on the survey due to limitation of time and other resources. Therefore, the use of survey in this type of longitudinal research is only possible when more resources are available to the researcher.

By sacrificing complexity for generality, survey research techniques render themselves as inappropriate research strategy for assessing causal complexity in non-experimental data (Ellis, 1995). As Ragin (1987 p.32) observes, such technique “do not decipher causal complexity but eliminate perplexing elements of it.” As a result, when the phenomenon of interest is presumed to be the result of the conjunction of various preconditions, case research, with its holistic focus on the combination of conditions that define the case, is the preferred research strategy. The case research strategy is typically consisted of a small number of cases and has as its goal the interpretation or explanation of social phenomena that are recognised as being inherently complex (Ellis, 1995). Its aim is to elucidate such phenomena whilst realising its plenteous complexity. Thus, “case is holistically defined as a whole in terms of different parts or conditions that are understood, not in isolation, but in relation to each other” (Ragin 1987, p.52). The analysis of causal complexity is conducted by comparing similarities and differences among cases. As such, “case study research attempts to achieve experimental rigor by identifying comparable instances of a phenomenon of interest and then analysing the theoretically important similarities and differences among them” (Ragin 1987, p.31).

Yin (1993, p.32) provides a technical definition of a case study as, ‘an empirical inquiry in which the number of variables exceeds the number of data points.’ Thus, case study research can be distinguished from other strategies where, for example, the phenomenon is fictitiously isolated from its context (an experiment), or where the phenomenon and context are investigated together, but only according to a limited number of variables (for example, a survey). So while the experimental design remains the ideal basis for scientific comparison, the case study stands as the method of choice given the need to investigate some phenomenon within its contextual setting (Bonoma 1985, Ellis 1995).

In addition to the issue of causal complexity, the research questions identified in chapter 2 emphasise the “how” and “why”, and its contemporary nature also indicates that the case study strategy is the best strategy among others in this study.
3.2.6 Summary

Section 3.2 discussed the realism of this study and presented the available research paradigms to this study. It reached a preliminary conclusion that case study method is the best choice for this research. The justification of case study method was confirmed.

3.3 CASE STUDY QUALITY ASSURANCE SYSTEM AND RESEARCH DESIGN

Section 3.2 discussed the available research paradigms and their associated research strategies upon realising the realism of this study. The use of case study strategy within the phenomenology paradigm was identified as the best research strategy. This section is concerned with the quality assurance system on case study strategy and the research design of this study.

3.3.1 Quality assurance system

Several techniques for ensuring the quality of case study research and confirming findings have been suggested by Yin (1989, 1993 & 1994), Eisenhardt (1989), and Miles and Huberman (1994). These techniques, which have been incorporated into the research design of this study, and which are intended to satisfy the traditional scientific tests of quality, are described below.

3.3.1.1 Construct validity

Construct validity is concerned with whether the operational indicators chosen actually measure the concepts being studied (Ellis, 1995). Typically this test is fulfilled by specifying the variables that are to be studied, and by showing that the empirical referents of these variables do indeed measure the concepts being studied. In case study research three procedures are used to indicate that the concrete variables studied reflect the operations selected. First, multiple sources of evidence are used in data collection so that the inquiry tends to converge on the facts of the case when the evidence is triangulated from the different data sources (Jick 1979; Parkehe 1993). The adoption of multiple sources of evidence means that “case studies can benefit from multiple investigation of the same phenomenon” (Yin 1989, p.97). In this sense, case studies can achieve higher levels of construct validity than research methods that rely solely on single source of information (Ellis 1995).
A second precaution to ensure construct validity is via the use of a chain of evidence throughout the study. The chain of evidence establishes the linkages between the research problem through to the study’s conclusions. The guiding principle to be followed is whether an external reader could see how the evidence collected addresses the research problem and supports the conclusions drawn. This requires access to the field guide used to collect the data, the case study notes that show how the instructions in the field guide were actually implemented, and sufficient citation in the case reports to the evidence contained in the database.

The final procedure for satisfying the test of construct validity is to allow key informants review draft copies of the final case report. While informants may disagree with the interpretation of the evidence and the final conclusions drawn, it is essential that there is no disagreement over the actual facts of the case. This review process is thus an important procedure for establishing the accuracy of the case study (Yin 1989).

3.3.1.2 Internal validity

Internal validity refers to the true value of the findings and, in this study, to the legitimate identification of a causal relationship between variables (Ellis 1995). More generally, internal validity addresses the problem of making inferences. As Mitchell (1983) explains, there are two types of inferences; statistical inference and causal or logical inference. Statistical inferences are produced concerning the characteristics (or variables) of some selected population on the basis of characteristics observed in a representative sample. It is likely to use statistical inference to show that relationships between variables observed in the sample exist in the selected population. However, statistics cannot be used to explain the relationships or correlation between the variable observed. This requires a “creative leap” on the part of the theoretician to establish the connection between the observed relationship and some explanatory schema (Mintzberg 1979). This causal inference is based, not on the representativeness of the sample, but rather “on the plausibility of the inference itself” (Mitchell 1983, p.197).

3.3.1.3 External validity

The external validity of a study depicts the extent to which the findings of the study are generalisable beyond the scope of study (Ellis, 1995). As mentioned, a common misconception against case study method is that generalisation to the population is not appropriate when only small number of cases are used. This misconception is unfair because it mixes up case study research with survey research. The purpose of case study is to expand and generalise theories rather than manipulating frequencies. The generalisation is operated under a prior construction of a theoretical framework or model and it is this model becomes the vehicle for generalising to further cases (Yin 1989). As Mitchell (1983, p.200) notes,
"we infer that the features present in the case study will be related in a wider population not because our case is representative, but because our analysis is unassailable."

To satisfy the requirement of external validity, replication logic is adopted to guide sample selection. That is, cases are selected to highlight some theoretical template and the findings of each case are intended to generalise to the underlying theoretical propositions. To generalise to some underlying theory requires that replications be made at a number of sites where the theory has predicted some outcome. In other words, cases are selected from a specified population for theoretical rather than statistical reasons and the resulting predictions are theoretical rather than empirical (Mitchell 1983). If the findings of several cases turn out as predicted, the researcher would conclude that "there was "compelling support" for the underlying set of propositions" (Yin 1989, p.53).

3.3.1.4 Reliability

Reliability is concerned with minimising the errors and biases inherent in a study (Yin 1994). This test is satisfied by making explicit the procedures used to research a case such that a later researcher or auditor could, by following the stated procedures or "audit-trail" repeat the same case and end up with the same results (Ellis 1995). The best approach to ensure reliability "is to make as many steps as operational as possible and to conduct research as if someone were always looking over your shoulder" (Yin 1994 p.37). The use of a replicable field guide or protocol to direct the data collection activities and the development of a case study database are two important operational tactics to fulfil the reliability requirement.

The case study protocol is used to establish consistency in the investigation of individual sites by documenting all the procedures used in the field. As such, the protocol is an absolutely necessary tool for establishing the reliability of findings derived from a multiple-case design (Miles and Huberman 1984). The protocol serve as a replicable guide for the investigator and typically includes; the field procedures to be used, the case study questions that are used for collecting the data, and a guide for case study report (Yin 1994).

The case study database is another tool to ensure reliability that is the formal, retrievable assembly of all the qualitative and quantitative evidentiary materials (including case study notes, documents and parts of the narratives) used in the research (Parkhe 1993). The database exists separately from the case reports and ideally should contain sufficient data such that another research could infer independent conclusions about the case.

Several operational techniques have been discussed to satisfy the traditional test of construct validity, internal validity, external validity and reliability. These techniques are summarised in Figure 3.2.
Figure 3.2   Case study tactics for scientific rigor

<table>
<thead>
<tr>
<th>Test</th>
<th>Tactic</th>
<th>Research phase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construct validity</td>
<td>Triangulate multiple sources of evidence to show for convergence</td>
<td>Data collection</td>
</tr>
<tr>
<td></td>
<td>Establish chain of evidence</td>
<td>Data collection</td>
</tr>
<tr>
<td>Internal validity</td>
<td>have key informants review draft case study reports</td>
<td>Data analysis</td>
</tr>
<tr>
<td></td>
<td>do within-case analysis, then cross-case analysis</td>
<td>data analysis</td>
</tr>
<tr>
<td></td>
<td>do explanation building and pattern-matching</td>
<td>data analysis</td>
</tr>
<tr>
<td>External validity</td>
<td>use replication logic in multiple-case studies</td>
<td>research design</td>
</tr>
<tr>
<td></td>
<td>Comparison of evidence with extant literature</td>
<td>data analysis</td>
</tr>
<tr>
<td>Reliability</td>
<td>use case study protocol</td>
<td>data collection</td>
</tr>
<tr>
<td></td>
<td>develop evidentiary database</td>
<td>data collection</td>
</tr>
</tbody>
</table>


In addition to the above tactics, the procedures of avoiding biases in data collection will be discussed in the following section.

3.3.1.5   Bias

The author of this thesis notes that he is the major research instrument in data collection and therefore special care is given to the issue of how to remain culturally unbiased and yet culturally sensitive to the research questions on the protocol. In order to minimise bias during the data collection process, the author would like to employ Hofstede’s (1991, p.9) framework on manifestations of culture to serve this purpose. It is based on the concept of cultural relativism that calls for suspending judgement when dealing with groups or societies different from one’s own. Information about the nature of cultural differences between societies, their roots, and their consequences should precede judgement and action. Hofstede’s (1991) framework consists of four terms 1) symbols 2) hero, 3) rituals and 4) values with symbol being the most superficial layer on the outside and value being the deepest manifestations on the inside, and hero and rituals in between.

_Symbols_ are words, gestures, pictures or objects that carry a particular meaning that is only recognised by those who share the culture. The words in a language or jargon belong to this category, so do dress, hairstyles, Coca-Cola, flags, and status symbols.

_Hero_ refers to persons, alive or dead, real or imaginary, who possess characteristics that are higher priced in a culture, and thus serve as models for behaviour.

_Rituals_ are collective activities, technically superfluous in reaching desired ends, but which, within a culture, are considered as socially essential: they are therefore carried out for their own sake. Ways of greeting and paying respect to others, social and religious ceremonies are examples.
According to Hofstede (1991) symbols, heroes, and rituals can be subsumed under the term 'practices'. As such, they are visible to an outside observer; their cultural meaning, however, is invisible and lies precisely and only in the way it is perceived by an outsider.

Value is the core concept of culture. Values are broad tendencies to prefer certain states of affairs over others and they are feelings with a plus or minus side e.g. evil versus good. Values are embedded within oneself not consciously, but implicitly. Therefore, they cannot be observed by outsiders. They can only be inferred from the way people act under various circumstances.

When the author of this thesis talked to the informants, these four terms were carefully monitored especially related the cultural elements i.e. guanxi, face, reciprocity, renqing and trust. Evidence was noted and related to these four terms. For example, the comment “if they (the Chinese) like playing golf, we play golf with them” (rituals) coming from Mr. Rodrequez of IBM was clearly related to guanxi. The practice of gift giving (rituals) and the association with important ministries (heroes) indicated the concepts of face giving and hierarchy were key characteristics in building up their relationship and business network in China. A typical hero case was found in Kenwah’s case. The local community respected the factory manager because of his integrity (hero). These objective terms enable the author to match them with evidence collected from the sites and determine their belonging categories and hence personal bias is reduced to a minimum.

The adoption of the above terms helps the author reduce the classification bias of the cultural variables. Miles and Huberman (1984) further note that the researcher is subjected to two other types of bias a) the effects of the researcher on the site and b) the effects of the site on the researcher. Bias (a) occurs when the researcher disrupts or threatens ongoing social and institutional relationships. People now have to figure out who this person is, why he or she is there, and what might be done with the information being collected. While they are figuring that out, informants will typically switch into an on-stage role or special persona, a presentation of self to outsiders. Bias (b) exists when the informants suspect that the researcher knows too much about their company. The researcher accordingly becomes more reassuring or, alternatively, moves into the investigative-adversarial mode (Miles and Huberman, 1984). Full recommendations on how to reduce these two biases can be found in Miles and Huberman (1984). The precautions that the author of this thesis has taken to ensure the reduction of these two biases to a minimum will be discussed in section 3.6.1.5.

3.3.2 research design

Section 3.3.1 presented the tactics to deal with validity and biases. This section is used to address the issue of sample design and data collection.
3.3.2.1 Defining a case

This research is to test the Sino-foreign joint venture negotiation model that the author of this thesis has developed in Chapter 2. It is concerned with the foreign negotiators’ perceptions on the negotiation elements specified on the negotiation model in chapter 2 with their Chinese counterparts in their PRC joint venture negotiation assignment. This model is process-oriented (Brahm, 1995) and its time span may vary substantially (Yan, 1995). As such, a case was defined as a foreign firm that has completed at least one joint venture negotiations with their PRC partnering firm. This definition has been widely adopted by Graham (1986), Lee and Lo (1988), Leung and Yeung (1995) and others when they investigated negotiation between foreign firms and PRC firms.

According to Hong Kong Basic Laws, all existing operation conditions in Hong Kong remain unchanged for 50 years after it has become a Special Administrative Region (SAR) of China from 1st July 1997 onward. All firms in Hong Kong are regarded as foreign firms when they invest in the Mainland China regardless if they are foreign or Hong Kong based. Therefore, the author of this thesis did not restrict the country of origin of firms except they must be situated in Hong Kong. The rationale of selecting Hong Kong as the place of conducting this study will be discussed in another part of this chapter.

No restriction was imposed on the negotiators’ nationalities of all foreign firms because they were subjected to similar operating conditions when they negotiated joint venture projects with their PRC counterparts. However, the readers of this thesis should note that a large portion of negotiators in foreign firms are Chinese because firms, no matter whether they are Hong Kong or foreign, like hiring capable Chinese to negotiate with their potential PRC partners. For example, the Swire Group employed Yiu Kwong who is an “old friend” of Lo Ping, the Secretary of Hong Kong Affair, as a mediator and chief negotiator for their Joint venture projects in the PRC (Anonymous author, Hong Kong Economic Times, 1/8/95). This recruitment policy reflects the concept of utilising “guanxi” person as an effective tool in China business.

3.3.2.2 Unit of analysis

The primary unit of analyses for the Sino-foreign joint venture negotiation model is the process of the joint venture negotiation in which negotiators in both foreign and PRC organisations interact. The first sub-unit is the cultural negotiating pillar (i.e. network, guanxi, face, reciprocity, renqing and trust and the concept of the problem-solving attitude (PSA)) which supports the progress of negotiation. The second sub-unit is the organisation influence exerts on the foreign and PRC negotiation teams and the third sub-unit is the environmental influence exercise upon these organisations. These sub-units are embedded within the primary or major unit of analysis (Yin 1994). Coupled with the multiple case design as stated above, this research study is a multiple-embedded design.
3.3.2.3 Geography

Hong Kong was selected as the place of conducting this research because it has some particular advantages over other possible areas such as the PRC, Taiwan and Singapore.

Hong Kong is an international city providing extremely low corporate tax arrangement (Anonymous author, Hong Kong Year Book, 1995) in addition to its proximity to the PRC markets. Foreign multinational firms set up offices in Hong Kong and use it as a springboard to enter the PRC markets (Ho, 1986; Mun and Chan, 1986). A large number of negotiators of these foreign firms are Chinese (Leung et al, 1996) and therefore cultural bias could be substantially reduced which make comparison of other negotiation variables related to corporations' country of origin possible.

The PRC is another possible place for carrying out this research. Since the implementation of its open door policy in October 1979, the PRC has been very cautious to release information to the international community. Research permits must be obtained from corresponding regional office which takes approximately 6 months to approve (Yau, 1994). Fieldwork may also have to be carried out through middlemen in the PRC because of their familiarity with the PRC law concerning research and their relationship with foreign firms in the PRC which exert pressure on financial resources. In addition, unavailability of detailed directories may jeopardise the perfection of a sampling design (Yau, 1994).

Taiwan is another potential candidate because multinational corporations set up their offices to negotiate contracts with their business partners in the Far East due to its superb geographic location. However, the Taiwanese Government has been in confrontation with the PRC Government since its defeat in 1949, trading between Taiwan and the PRC has continued via some informal channels. Under this scenario, the foreign multi-national firms must use other place like Hong Kong as a stepping stone to invest in the PRC market. This political reason precludes the possibility of conducting this survey in Taiwan.

Finally, Singapore is an international forum in which foreign organisations are willing to establish offices. The Singaporean Government has specified that 75% of the Singapore population must be of Chinese origins. Therefore, conducting this survey in Singapore seems logical in theory. However, provided that the American firms send Chinese negotiators to manage their joint venture negotiations in the PRC, these Chinese are descendants of those who settle in Singapore before it became independent. The education system does not allow the Chinese there to understand fluent written and spoken Chinese (Yau, 1994). In this sense, Singapore is not an appropriate choice.

3.3.2.4 Sampling frame
As mentioned in section 3.3.2.1, the samples were foreign firms that have completed at least one joint venture negotiation assignment. The author of this thesis observed the limitation of resources in mind when selecting firms to make comparison. The basic design of the sampling frame aimed to compare firms with the same basic or common dependent variable and with other different independent variables at the same time. In this study, a dependent variable was the same for firms being compared (i.e. two firms which have successfully negotiated at least one joint venturing project in China), whilst these two firms were different in other independent variables in terms of industrial type and size and other operation conditions. The ideal is to select firms as different from each other as possible whilst holding the dependent variable (i.e. joint venturing negotiation) constant. The aim was to maximise variation by including small firms and large firms, hi-tech and low-tech firms, firms headed by entrepreneurs and firms headed by more conservative business-people, and firms that were local/ regional versus multinational in nature. Variation was intended to reinforce the applicability of the joint venture negotiation model to all firms which attempt to negotiate joint venture projects with their PRC counterparts because “similarities observed across a diverse sample offer firmer grounding for such (proposed common dependent variable) than constant elements observed in a homogeneous sample of organisations” (Harris and Sutton 1986, p.8). As such, the author of this thesis would like to demonstrate that foreign firms would enter into similar model process as predicted by the joint venture negotiation model in Chapter 2.

3.3.2.5 Within-case sampling

The conclusions reached by a study are affected by the within-case sampling choices. Within-case sampling is concerned with those embedded units of analysis that are “buried” within the broader case. In this study the actual joint venture negotiation process is supported by the mutual understanding of the Chinese cultural elements by the foreign and Chinese parties and the problem solving attitude (PSA) which in turn is embedded within the organisational context of both parties. Thus, selecting negotiation stories, a within-case sampling decision, is an important part of the overall sample selection.

Initially it was expected that the negotiation story for a foreign firm should only be related to one joint venture project in China. However, it became obvious that joint venture negotiation in China was an accumulative experience for some interviewees i.e. Mr. Luis Rodriguez -Director of Manufacturing Greater China Group, IBM and Mr. Vincent Kwan, Vice President of Business Development, Otis Elevator International, Inc. because they have been involving in negotiation for joint venture negotiations since the early 1980s. The same situation was applied to Dr. Jur Markus Arnold- General Counsel (China) and Ms Celina Chew, Legal Counsel of Bayer China Ltd. They only started their Joint Venture negotiation in China in 1993 but have put 10 joint ventures into operation. The chief negotiators of these three companies actually refused to refer their negotiation experience to a particular joint venture. As Dr. Jur Markus Arnold of Bayer claimed during the interview with the author of this thesis: “It is unfair to refer Chinese joint venture negotiation experience to a specific joint venture because it is not representative enough for our negotiation experience in China.” Therefore, they triangulated their
negotiation experience and reported their experience as a whole. All other interviewees i.e. Mr. Steward K.C. Lee Vice President of First Pacific Asia Link Ltd., Mr. Simon Li, Director of Kenwah Enterprises, Mr. Daniel So, Managing Director of Synergie Ltd, Mr. Patrick, General Manager of Hong Kong Beijing Air Catering Ltd, and Mr. Yeng, Divisional Manager of Donaldson Far East Ltd. could only report one joint venture for their companies because that was the joint venture experience they liked sharing with the readers of this thesis.

This selection of sample actually helped to build up “depth” of the data because of accumulative years of data and yielded more recent negotiation stories. The combination of “accumulative case experience” with “individual case experience” can strike balance between “depth” and “width” of the data.

**3.3.2.6 Cross-case sampling**

As noted above, the experiment is the methodological ideal type for measuring causal complexity (Ragin 1987). In experimental research the basis for comparison is governed by the use of replication logic (Ellis, 1995). This same logic is also used to direct the sampling activities of a multiple-case study. That is, each case studied is purposely selected with the aim of repeating the results of a prior study (a literal replication). Because of the similarity between assigning subjects and sampling cases, Bailey (1992) concludes that the individual experiment is, in essence, a case study. In this sense, sampling decisions are made on conceptual grounds, while generalisations from one case to the next are made on the basis of a match with the underlying theory. Subsequent cases are selected to extend the underlying theory to a broad range of generalisations and this provides the confidence that the emerging theory is generic (Miles and Huberman 1994). Paton (1990 p.177) puts this as Theory-based or operational construct sampling where the researcher “samples incidents, slices of life, time periods, or people on the basis of their potential manifestation or representation of important theoretical constructs.”

An important feature of this study’s reset design is the use of multiple cases and data analysis based on comparing the findings of the individual cases (Ellis 1995). It should be noted, however, that despite the emphasis placed on multi-case sampling and cross-case comparison, each firm or case study represents one complete study. That is, each case is a separate entity. The individual cases are selected for independent corroboration of specific propositions and it is the conclusions, based on each individual case, that are considered to be information needing replication by subsequent cases (Parkhe 1993). The relationship of the individual cases to the overall research design is shown in Figure 3.3.
Figure 3.3  The relationship of individual cases to the overall research design

The limitation in time and other resources only allowed the author of this thesis to take an “outside-in” perspective in investigating how foreign negotiators negotiated with their PRC counterparts and gave away the “inside-out” perspective i.e. how Chinese negotiators negotiate with their foreign counterparts to further research.
3.3.2.7 The determination of sample size

The units of analyses as mentioned involved the negotiators and their organisations which is clearly an embedded design (Yin, 1994). This section is to discuss the use of single case or multiple cases in this research project.

The author of this thesis perceives that when foreign organisations negotiate with their counterparts in the PRC for a joint venturing project, the negotiation process between the two negotiation parties will follow the pattern depicted in the tentative Chinese Joint Venturing Negotiation model presented in figure 2.27 and 2.28. This negotiation process model, if confirmed in this research project, will be generalised to other foreign organisations that desire to negotiate a joint venture project with the PRC. This underlying rationale clearly favours a multiple case design because this model does not intend to test a critical case in a well-formulated theory. The model is not an extreme or a unique case. It is not the revelatory case as proposed by Yin (1994) for a single case study approach. Yin (1994) further notes that six to ten cases, in the aggregate, would have provided compelling support for the theory or proposition under study. Because of limited time and resource, the author of this thesis would like to undertake six cases as replication logic and one case as literal logic for this research project.

Under a replication-logic, cases are selected from a specified population for theoretical rather than statistical reasons (Eisenhardt 1989; Yin 1989 1994). In this study the relevant population was defined as foreign firms which have successfully negotiated joint venture projects in the PRC. From this population firms (or cases) were selected to achieve literal replications. Six foreign firms were examined to see whether the contexts leading to negotiation results were similar to all (a literal replication). One foreign firm that did not follow the model suggested was also selected to see its negotiation context as a comparison to the above six firms (a theoretical replication). These seven foreign firms were chosen on conceptual grounds and from different industries rather than with the aim of getting a representative mix of firms. The aim was to rule out possible industry-specific effects and demonstrate that the underlying model is generic by identifying those elements that are common to all Sino-foreign joint venture negotiation practices.

3.3.3 Summary

Section 3.3 discussed the quality assurance system of case study method and the research design of this study.

The methods of ensuring construct validity, internal validity, external validity, reliability have been presented. The problem of bias oriented in case study method has also been dealt with. The research
design mainly defines a case, its unit of analysis, the geography, sampling frame, within-case sampling, cross-case sampling and sample size.

A case is defined as a foreign firm that has completed at least one joint venture negotiations with their PRC partnering firm.

There are three sub-units embedded within the model of analysis: 1) the cultural negotiation pillar (the cultural elements and the problem-solving attitude (PSA)); 2) the organisational influence exerting on the foreign and Chinese negotiation teams, and 3) the environmental influence acting upon the organisations.

Hong Kong was selected as the place of conducting this study because of 1) its proximity to China, 2) its vital role as a investment springboard to China, and 3) the minimisation of cultural bias.

The sampling frame was designed to maximise variation of firms so as to demonstrate that foreign firms would enter into similar model process as predicted by the joint venture negotiation in chapter 2.

The choice of within case sampling was to investigate the “depth” of the case by accumulating firms’ total negotiation experience and the “width” of the case as mentioned in the sampling frame above. The cross-case sampling follow a replication logic in multiple case design.

### 3.4 MODEL COMPREHENSIVENESS

This section is devoted to address the issue of procedures adopted in the in-depth interview so as to justify the comprehensiveness of the Sino-foreign joint venture negotiation model.

#### 3.4.1 Exploratory studies

The comprehensiveness of the Chinese joint venture negotiation model was validated through exploratory studies. Two techniques are being used in exploratory studies i.e. 1) focus group and 2) in-depth interview.

Concerning the focus group interviewing technique, a good focus group study must have the following characteristics (Churchill 1991):

1. The optimal size of each focus group should be in the range of 8 to 12 people to avoid domination of one or two members in a small group or lack of participation of any group member in a large group;
2. Each focus group must be homogeneous in nature to give converge views. However, multiple focus groups (ideally 4 groups) must be used to obtain wide spectrum of insights;
3. Each focus group member must be screened to ensure that (s)he never participate in focus group interview to avoid his or her domination in the focus group as an “expert”; and
4. A typical focus group must last for 1 1/2 to 2 hours.

As mentioned previously, the ideal respondents of this research are top executives of foreign firms. It is difficult if not impossible to ask significant number (8 to 12 members) of top company executives to participate in focus group interviews. Most of the top executives travel to China (PRC) frequently to conduct negotiations and therefore it is extremely difficult to arrange them to meet at the same time for such a long duration (1 1/2 to 2 hours). Also, it is reasonably to assume that the most ideal candidates have some focus group or equivalent experience. Therefore, every one of them may attempt to dominate the focus group interview. Because of these rationales, focus group interviewing technique is not recommended in this research project. Furthermore, it may be offensive for them to talk about a lot of “sensitive” issues e.g. guanxi and the gift giving which may be perceived as bribery in front of others during focus group interviews.

Logically, the in-depth interview was chosen based on the following reasons to add ‘depth’ to the literature research and to ensure the comprehensiveness of this Sino-foreign joint venture negotiation model:

1. A face to face interview with a top company executive during office hours could add confidence to that executive concerning his/her information privacy;
2. The interviewee could freely express his/her opinion concerning the China (PRC) current business environment on a one-to-one basis;
3. The “sensitive” information i.e. business terms accidentally released by the interviewee could be easily deleted when the interview was conducted on a one-to-one basis; and
4. The interviewer and the interviewee could discuss some important issues e.g. guanxi and face in a private location. This may reduce bias and the reasons have already been explained in section 4.4.6.

3.4.1.1 Selection of in-depth interviewee

The sample of negotiator selected was a true reflection of the most popular business investment mode for foreign firms entering the PRC market. According to Pomfret (1991), equity joint venture, co-operative joint venture, wholly foreign-owned enterprises and joint development projects are the four most popular investment modes for foreign firms to enter the PRC market. Out of these four modes, equity joint venture and co-operative joint venture attracted 35% and 49% of the total foreign investment during the ten year period ending 1988. This trend continued, the total agreed foreign investment capital in China amounting to U.S.$ 9.62 billion at the end of 1991 which was increased by 73% from 1990 (Cook 1996).
As such, the joint venture remains the most important direct foreign investment (DFI) mode in the PRC. Therefore, the sample of negotiators was confined exclusively to top executives responsible for either equity joint venture or co-operative venture projects in the PRC market.

The Chinese negotiation model indicates that the negotiation process is influenced by the legal/political, economic, social/cultural and the technological environments surrounding the two negotiation parties. The mutual appreciation of the unique cultural elements e.g. network, guanxi, face, renqing, reciprocity and network and the problem solving attitude (PSA) of the negotiators are important institutional supports for the negotiation process to generate a fruitful outcome. These elements of the negotiation model were integrated into a few themes. It was important to stress that the in-depth interviewing process did not rely on a questionnaire being answered. The conversation in the in-depth interview was pursued on a sequence of topics using a series of prompts that was record taped with the permission of the interviewees. The Sino-foreign joint venture negotiation model interview schedule and the in-depth interview theme can be found in appendix b.

3.4.1.2 Method of in-depth interview

The key to gathering data of this kind is the winning of enough confidence to remove the barriers which people commonly erect. This requires:

1. “Some equivalence of respect and status between interviewer and interviewee;
2. Enough time to reflect, ruminate, debate, consider alternatives; and
3. An atmosphere conducive to persuading people to give something of themselves.”
   -Redding, 1993, p246

These requirements were fulfilled by using the technique of the objectifying interview in this research project (Redding, 1993). The interviewer and the interviewee considered the topic “objectively”. For this to happen, they engaged in an exchange of views and generated chemistry on a topic about which they have a chance to voice an opinion, and about which they both have some experience. To initiate such a discussion, the interviewer may start with a sentence such as “I have developed an interest in a specific aspect (X) of Chinese negotiation and you may have an insight on it; my feeling is...”. To initiate an “objective” discussion, the interviewer must be equipped with knowledge of the business world, either as a previous negotiator or active researcher or both.

To seek an interview, courtesy telephone calls were made to the senior executives of firms who had responsible for joint venture negotiation experience. These interviewees were recruited either by existing business contacts or via the past graduates of the Hong Kong Polytechnic University. On some occasions, an introductory letter was sent to each targeted interviewee explaining the purpose of the in-depth interview. The eligibility criteria was that the interviewees must be the chief negotiators of a joint
venture project in China (PRC) and have conducted at least one joint venture negotiation with the PRC. Initial scanning of the titles from their business cards in addition to the confirmation from telecom with these interviewees ensured their qualification for the interviews. In this study, the author of this thesis conducted all the in-depth interviews.

In order to create a harmonised business atmosphere so that the interviewee can perform in his/her own optimal capacity and exchange his/her view with the interviewer, the interview was conducted in the interviewee’s office after (s)he had agreed to give an appointment. During the interview, the interviewer used the technique of the objectifying interview and talked as little as possible but up to the point and extracted large amount of information from the interviewee by presenting the in-depth interviewing themes as discussed above.

### 3.4.2 The interviews and revised model

Section 4.6 listed out the procedures of selecting and approaching the in-depth interviewees. This section is to give findings resulting from those in-depth interviews.

The tentative Sino-foreign joint venturing negotiation models in figure 2.26 was validated by six in-depth interviews with experienced negotiators of joint venturing projects in China (PRC). A list of the in-depth interview participants can be found in figure 3.4.

#### Figure 3.4 A list of in-depth interviewees

<table>
<thead>
<tr>
<th>DATE OF INTERVIEW</th>
<th>NAME</th>
<th>TITLE</th>
<th>COMPANY</th>
<th>HEAD OFFICE BASE</th>
<th>NATURE OF BUSINESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>14/2/97</td>
<td>Alastair Britton</td>
<td>General Manager and Strategic Planner</td>
<td>General Motor-Construction Equipment</td>
<td>U.S.A.</td>
<td>Manufacturing of construction equipment</td>
</tr>
<tr>
<td>18/2/97</td>
<td>Jingzhi Zhang</td>
<td>General Manager</td>
<td>Jhansen &amp; Co. Ltd-China Business Development</td>
<td>Germany</td>
<td>Manufacturer of consumable goods</td>
</tr>
<tr>
<td>20/2/97</td>
<td>Nicholas C.W. Leung</td>
<td>General Manager</td>
<td>AVNET WKK Components Ltd-Sales and Marketing</td>
<td>Hong Kong</td>
<td>Manufacturer of electronic components</td>
</tr>
<tr>
<td>21/2/97</td>
<td>Stephen T.W. Li</td>
<td>Director</td>
<td>Tania Health Equipment HK Ltd</td>
<td>Japan</td>
<td>Manufacturer of electronic scale</td>
</tr>
<tr>
<td>5/3/97</td>
<td>Michael Y.C. Kwong</td>
<td>General Manager</td>
<td>Kai Yip Metal Manufacturing Ltd</td>
<td>Hong Kong</td>
<td>Manufacturer of metal product</td>
</tr>
<tr>
<td>8/3/97</td>
<td>Mr. Fred C.W. Kwok</td>
<td>Senior Manager</td>
<td>Bank of China Group Investment Ltd</td>
<td>China (PRC)</td>
<td>Financial Institution and active investors in Joint Venture Projects in China</td>
</tr>
</tbody>
</table>
The locations of head quarter of these company participants are diverse; five are based outside China (PRC) and one is based in China (PRC). The diverse background of the participants ensured the external validity of the Chinese joint venture negotiation model. Under the concept of one country and two systems proposed by former Chinese Communist Party (CPC) chairman Deng Xiao-ping, when the Hong Kong subsidiary of a Chinese based company goes back to China to invest, this subsidiary is treated as a foreign company. Therefore, the China Bank Investment Group in Hong Kong has a dual identity. It is a Chinese enterprise but with a foreign firm’s status.

3.4.2.1 The interviewing result

The author of this thesis successfully taped three conversations with Mr. Alastair Britton of General Motor, Mr. Jingzhi Zhang of Jebsen & Co. Ltd., and Mr. Michael Kwong of Kai Yip Metal Manufactory. The record taping was possible because these three candidates were personal friends of the author. The other three participants, Mr. Nicholas Leung of AVNET WKK Components Ltd., Mr. Stephen Li of Tanita Health Equipment H.K. Ltd. and Mr. Fred Kwok of Bank of China Group Investment Ltd. refused the record taping exercise or otherwise they would terminate the interviews. The potential reasons were that some topics were very sensitive in nature e.g. guanxi and gift giving. The author of this thesis had no alternative but to take field notes when interviewing these three persons and also gave them reassurance that their names would not be disclosed in any other report except for the production of this thesis which is being used for academic purposes only. The author of this thesis began the conversations with these participants by showing them figure 2.27 i.e. the Sino-foreign joint venture negotiation model and the associated negotiation strategies figure 2.28 and asked for their opinions on the general validity of the model. The author of the thesis then conducted in-depth interview.

Basically all participants agreed that the Sino-foreign joint venture negotiation model is basically valid and comprehensive. However, these participants provided some important comments on the model.

Culture - The interviewees could not differentiate between the environment factor i.e. the term culture from the negotiation pillar that mainly comprises of all major cultural elements in China. It can be reasonably assumed that the cultural elements start to work when the foreign team enters into negotiation with their PRC counterparts. This implies that the cultural elements may not have an influence on the foreign negotiators at all before they directly or indirectly meet their PRC counterparts. Therefore, the term culture was cancelled and only the term social retained in the environmental factor.

Network- Mr. Jingzhi Zhang-General Manager of Jebsen & Co. Ltd. and Mr. Michael Kwong of Kai Yip Manufactory Ltd. both claimed that “network” can bring both foreign and Chinese parties to the negotiation table but it cannot really support the actual negotiation process.” A similar view was shared by Mr. Nicholas Leung, “once they enter into negotiation for joint venture project, the function of this network finishes!” Mr. Fred Kwok of Bank of China Group also did not understand the purpose of this
network. Therefore, the author of this thesis, based on these comments, cancelled this construct on the model.

**Guanxi**- The Chinese participants had no objection to use the term "guanxi" during the interview. However, Mr. Alastair Britton of General Motor had a different view on "guanxi": "as far as I concern, guanxi is corrupt!" Therefore, the author of this thesis will use the terms "guanxi" and relationship alternatively in the interviews at later stage of this study to avoid anxiety from the interviewees.

**Documentation of Joint Venturing project in the PRC**- Mr. Fred Kwok-Senior Manager of Bank of China Group Investment Ltd. claimed that they have 140 joint venturing projects in the PRC which are in full capacity. Another 40 joint venture negotiations are being carried out. He commented that documentation would be generated at different stages throughout the negotiation process.

**Letter of Intent**- is a letter signed by both foreign and PRC parties to express their intention for a joint venture project. The actual signing of this letter can be in the pre-negotiation or the post negotiation stage depending upon the Chinese party’s agenda. For some potential projects which have already been listed on the Chinese development plan and the job of the Chinese negotiators is to look for a partner to carry out that project, letter of intent will be signed at the pre-negotiation stage. On a lot of occasions, however, the foreign party will not sign the letter of intent until basic principles have been agreed and their own feasibility study has been completed. The signing of this document will happen at the post negotiation stage. When the joint venture projects are being listed on the Chinese development agenda, they normally are emerged from the administrative and bureaucratic needs of a particular government unit to show their contributions to national economic development. They may not have rich business ingredient such as profit and market development objectives. Foreign organisations in Hong Kong, equipped with this understanding, will generally conduct their own feasibility studies before signing the letter of intent with the Chinese party. In this sense, signing of this letter of intent in the post-negotiation stage actually indicates the sobriety of both parties.

**Signed Letter**- for some terms which are important but cannot be written on the contract e.g. foreign property developers may want the PRC party to reserve a piece of land for their phrase II development. For budgeting and approval purposes, only land for phrase I can be included on the contract. To protect the foreign party to have sufficient land resources, according to Mr. Fred Kwok, the foreign party will normally sign a letter with the PRC party to include the land for phrase II development (or a Signed Letter). A solicitor will endorse this letter and it will not surface unless the project is derailed.
3.4.2.2 Revised Model

The revised Joint Venture Negotiation Model and its associated strategies are presented in figures 3.5 and 3.6. The element “network” is deleted from the negotiation pillar. The document “letter of intent” may either be signed in the pre-negotiation or the post negotiation stage.

**Figure 3.5 A revised Sino-foreign joint venture negotiation model**

As explained in section 3.4.2.1, the indepth interviewees thought that network should not be included on the model once the negotiation starts, the term network is deleted from the model.
Figure 3.6  The revised strategies used by party A (Western) and party B (Chinese) at different stages of the negotiation process
1- pre-negotiation stage, 2- negotiation stage, 3- post-negotiation stage, 4- contract-signing stage, 5- post-contract signing stage

1A Pre-negotiation stage
   Foreign party
   Organization objectives
   - Identification of PRC bureaucratic structure
   - Identification of common marketing and financial goals
   Personal objectives
   - Identification of PRC negotiators' goals
   Etiquette
   - Eating and drinking

2A Negotiation stage
   Foreign party
   Strategies
   - Collaborating
   - Compromising
   - Perceptions on PRC negotiators' strategies and respond
   - USP of offerings
   - Patience

3A Post-negotiation stage
   Foreign party
   Strategies
   - Closely monitor economic & political environment development
   - Patience
   - Closely follow own company's goals/objectives
   - Signing of letter of intent
   Party A & B

4A Contract-signing stage
   Foreign party
   Strategies
   - Patience
   - Closely follow own company objectives
   - Closely monitor Chinese economic & political environment
   - Thoroughly check the contract terms against company policies

5A Post-contract signing stage
   Foreign party
   Strategies
   - Patience
   - Higher level negotiation
   - Closely monitor PRC economic development and reflected on the contract

1B Pre-negotiation stage
   Chinese party

2B Negotiation stage
   Chinese party
   Strategies
   - Collaborating
   - Competing
   - Accommodating
   - Avoiding
   - Compromising
   - Manipulation of time
   - Creation of tension

3B Post-negotiation stage
   Chinese party
   Strategies
   - Feasibility study
   - Re-negotiation

4B Contract-signing stage
   Chinese party
   Strategy
   - Re-negotiation

5B Post-contract signing stage
   Chinese party
   Strategies
   - Re-negotiation
3.5 THE CASE STUDY PROTOCOL

Section 3.4 has proved the comprehensiveness of the Sino-foreign joint venture negotiation model, and the revised model and its associated strategies are presented in Figures 3.5 and 3.6. This section is used to give explanation of the development of this list of research questions. This is an important part of the research protocol to enable effective fieldwork to be carried out. The idea of developing a case study protocol is to ensure similar research findings can be obtained when the research is repeated in the future (Miles and Huberman 1984, Yin 1989, 1993, 1994). It does not only contain the research instrument but also includes the procedures and general rules that should be followed in using the instrument which are major tactics to increase the reliability of case study research. In fact, it is a roadmap to guide the investigators to carry out the case study (Yin, 1994). This protocol was pilot tested with Hong Kong Beijing Air Catering Co. Ltd. The selection of this case followed Yin’s (1994) Criteria i.e. convenience, access, and geographic proximity. The general manager of Hong Kong Beijing Air Catering is a personal friend of the author and his office is close to the author’s place of work.

3.5.1 System approach of developing a research protocol

Buttery (1988) argues that negotiators who attempt to specialise in specific areas of interest tend to ignore the interaction of sub-systems, environmental influences and their effects on the functioning of the organisation as a whole. In saying that, foreign negotiators should not just attempt to sign the contract, to improve their negotiation strategies or techniques or to sell the best technology without considering the cost implication from the Chinese side when they negotiate with their PRC counterparts for joint venture projects. Blackman (1997) reported a failure negotiation case because the company (unnamed) just intended to sell the most advanced mining technology to the Chinese but neglected their main concern i.e. the total cost of the project. As such, the development of a list of research questions must be based on a system concept. In saying that, Sino-foreign joint venture negotiation is not solely with the joint venture project itself. The negotiators need to manage other issues related to the joint venture projects. Checkland (1981, p.21) reckons: “The definition of a system as ‘a collection of parts organised for a purpose’ is so general ...mere repetition of ‘system’ adds nothing to understanding, and we need a language for describing systems in order to use the concept effectively in real problem. The dynamics of firms, economies, etc., are real problems... It is, however, only helpful to treat such problems in system terms, if we can describe the forces which cause the dynamics, and can then employ a theory of systems to study how these forces might be controlled, removed, or reinforced, in order to improve behaviour.” Clearly then, the case study protocol must be structured in system terms in order to add understanding to the joint venture negotiation process. The purpose of this section, then, is to use the systems concept to justify the comprehensiveness of the research questions that the author of this thesis developed in chapter
2. If the research questions are not comprehensive enough, the set of research questions will be revised so as to justify its comprehensiveness.

3.5.1.1 System characteristics and their reflection in the joint venture negotiation model

Buttery (1988) quotes others' work and lists out the following major characteristics of a system which are applicable to this study: 1) holism 2) hierarchy of systems 3) the controller and the environment 4) open and closed systems 5) entropy 6) system goals and 7) feedback and control. The author of this thesis will use the first characteristics to explain the rationale of the model and other characteristics to derive the research question protocol that will be pilot tested at a later stage.

*Holism*- It is the theme of system theory. It suggests that an investigator should not inspect components of a system individually, rather (s)he must look at the system as a whole and how these components interact.

The model in figure 3.5 above suggests that joint venture negotiation is a 'system' approach to bring the foreign and the Chinese parties together. They do not only intend to sign the joint venture contract and obtain all the necessary documents from the Chinese government to establish their operation. Rather, they are there to solve perceived problems related to the future joint venture operations. These two parties or organisations interact with their perceived environmental forces and establish their goals and objectives related to the joint venture projects. They process with problem solving attitude (PSA) and attempt to resolve differences and setting common goals and objectives which are beneficial to both firms. The problem solving attitude (PSA), integrated with the cultural appreciation i.e. guanxi, face, reciprocity, renqing and trust, becomes an interlocking device to produce an interactive and harmonised environment so that joint venture negotiation can proceed in a stage-by-stage process. During this process, the system is open to change. For example, the change in Chinese legal bureaucratic policy will surely have influence on the joint venture negotiation.

*Hierarchy of systems*- The holistic concept above demonstrates joint venture negotiation exercise is part of a larger sub-system of two organisations which impose constraints such as investment amounts, dividend arrangement, life span of the contract, etc. on this negotiation exercise. The sub-system of organisations, again, work on their organisation objectives, common marketing and financial goals within the environmental forces specified on the joint venture negotiation model.

*The controller and the environment*- Organisations are open systems which are being controlled by human beings according to some business boundaries which are difficult to define because of variations in firms' sizes (Buttery 1988). Drucker (1981) and Galbraith (1974) suggest that large, established firms tend to internalise certain aspects of their environment or at least influence it to a large extent. For
example, when multi-national firms enter China, they will make donation to the local communities to obtain favourable treatment within the governmental planned environment. Likewise, large franchising organisations like McDonald internalise their marketing channel policies in all markets on the globe. On the contrary, small foreign firms may not have the ability to do the same. Burrey (1988) argues that small, competitive firms may have little opportunity to control some aspects of their marketing sub-system such as pricing, which tends to be established by market forces.

As suggested by the Sino-foreign joint venture negotiation model, both the organisations and negotiators act as controllers. The negotiators attempt to keep the objectives and goals under control whilst they negotiate joint venture projects. Their employers or their firms try to control their agenda through reporting procedures and process.

*Open and closed systems*: Schoderbek et al (1985, p.45) give insightful comment on open and closed system as follows. “The classification of systems into open and closed rests upon the basis of resource availability. The resources of a system are all those things available to the system for carry out the activities necessary for goal realisation. They include personnel, money, equipment, technological processes, information, and even the opportunities for the aggrandisement of the human and non-human of the system. In a closed system all the system’s resources are present at one time. There is no further influx of additional resources across the system’s boundary from the environment. In open systems, on the other hand, additional supplies of energy or resources can enter the system across its boundaries.”

The joint venture negotiation exercise, of course, is not a production system for physical goods and services which has the characteristics of open and closed system. In saying that, production management itself is a closed system to manage the schedule of production. However, it is also an open system when it has to respond to a change in demand for physical products, change in product design, etc. that are subjected to environmental changes.

The proposed joint venture negotiation model does possess the characteristics of an open and a closed system. Negotiators of both sides, based on the available information to negotiate the co-operation agreement on plant design, board representation, technology transfer etc. represents a closed system if no further information is input. However, it is an open system if both firms continue receiving additional information for the joint venture project. Indeed, negotiation in China must be operated on a combination of closed and open system environments. On the one hand, negotiators attempt to finalise joint venture details according to their available information. Yet they require additional information to respond to their PRC partners’ change of co-operative terms and the Chinese economic situation which is essentially a planned economy.

*System goals*: As the author has already mentioned in chapter 2, common goal seeking by both the foreign and PRC parties is a major characteristics in joint venture negotiation (Maddux 1988). Ackoff
(1971, p.662) suggests "a system that is goal seeking in each of two or more different (initial) external or internal states, and which seeks different goals in at least two different states, the goal being determined by the initial state. A purposive system is multi-goal seeking with different goals, all of which have a common property."

The joint venture negotiation model can be viewed as a system for two organisations to seek common multi-goals. These goals include market shares, profitability of the venture, product innovation, etc. that require a lengthy negotiation process to sort out.

*Feedback and control* - Control within systems is accomplished by the user of the system taking decisions rather than by a built-in feedback and control (Buttery 1988). The most important kind of loop that exists in any control system is the negative feedback loop. Forrester (1961) suggests that a negative loop is goal-seeking, that is, it tries to move a level towards some desired target by creation action in the opposite direction from the discrepancy between the actual and target values for the level.

The above system characteristics prompt the author of this thesis to confirm the research questions that the author presented in chapter 2 with one additional question. Readers should note that these seven questions are only applicable to foreign firms but not their counterparts (the Chinese firms) due to the limitation in the author’s resources. Future research should aim to explore the joint venture negotiation from the PRC firms’ perspective.

**Hierarchy of systems and their related questions**

*Environmental influence*
- What economic, political/legal, and technological factors will influence the negotiation process?

*Organisational influence*
- What influence did foreign firms’ corporate offices exert on their negotiator?

*Joint venture negotiation characteristics*
- How does the joint venture negotiation proceed from one stage to the next?
- How do the foreign negotiators formulate strategies and how do they respond to their PRC counterparts' strategies?

*Cultural and Problem Solving Attitude characteristics*
- How important are the Chinese cultural elements e.g. "guanxi", "face", "reciprocity", "renging" and "trust" to the Joint Venturing (JV) negotiation?
- How Problem Solving Attitude (PSA) e.g. information gathering and need fulfilment help negotiators to negotiate?
Feedback

- How satisfactory is the joint venturing (JV) outcome?

Readers should refer to appendix b for full details of this protocol that includes all sub-questions of the above main questions. Also a question of company background is included.

The preliminary research question protocol and the operationalisation of these research questions contained sixty-five operational questions scattered over eight research questions. To ensure the suitability of this research question protocol, a pilot test was carried out. A pilot case study “reveals inadequacies in the initial design or may help to articulate it” (Yin 1994, p.53). The inquiry for the pilot case is broader and less focus than the ultimate data collection plan. It covers both substantive and methodological issues. More importantly, it aims at “testing the logistics of the field inquiry” (Yin 1994, p.75). The pilot study does not only limited to one case; it may contain several cases if the time frame is allowed. Yin (1981, 1982) actually had seven pilot cases in his study of technological innovations in local services. Nevertheless, the resource constraint confines the author of this thesis to conduct one pilot case study taking into account that comprehensiveness of the joint venture negotiation model was validated in the in-depth interviews in the above section.

Hong Kong Beijing Air Catering Ltd. was the first firm that the author of this thesis contacted to ask for an interview as the pilot case to test the suitability of this protocol. The selection of this company followed Yin’s (1994) criteria of convenience, access, and geographic proximity. Their General Manager, Mr. Patrick Pang is a personal friend of the author and his company established the first joint venture in Beijing in the early 1980s. This information was later confirmed by a newspaper article (Anonymous author, South China Morning Post, 22/10/87). Mr. Pang’s boss is one of the members in the National People’s Representative Committee that is claimed to be a centre of authority by the Chinese Constitution. The interesting background of Mr. Pang’s boss and his company implies that this company has excellent connection with various government mechanisms in China.

The interview with Mr. Pang lasted for approximately 2 hours and was conducted in Mr. Pang’s office to allow the author of this thesis and the interviewee to have a more productive environment. The major topics for this interview were to confirm the basic logistics of the preliminary protocol, to test the wordings and phrasings in this protocol and to uncover any deficiency in field procedure (Yin 1993, 1994).

3.5.2 The pilot case inquiry

It became apparent that a lot of operational questions were unclear from this pilot case inquiry. For example, the economic issues in question two were too broad and too academic for the interviewee to
respond. It must be more specific in term of economic policy and taxation policy. Hence, this economic issue needed to be substituted by solid probing like the implementation of the macro economic control policy.

Another area that needed special attention was the operational questions in cultural factors in question seven. Guanxi can be very useful in China. Mr. Pang mentioned that the reason that they could set up the first joint venture in China was due to his boss’ political influence at that time.

The pilot case study with Hong Kong Beijing Air Catering Ltd clarified the above issues and some other smaller issues such as management experience in question eight, and it also eliminated the above overlapping operational questions. The final number of question in the Research Question Protocol was reduced from sixty-five to fifty-six. A full pilot case study report can be found in appendix c.

3.5.3 The final case study protocol

The preliminary research question protocol was amended and justified in section 3.5.2. This section is used to reveal the full set of final case study protocol. The resulting protocol consists of the following:

(a) A one page overview written in jargon-free language;
(b) A one page summary on the purpose of study;
(c) A synopsis on the key issues of the case study protocol including the interviewing guide;
(d) A list of field procedures;
(e) A list of research questions and their operationalisations; and
(f) An outline for the case study report.

The most important aspect of the case study protocol was the research questions and operationalisations of these questions. Research questions provide the link between the model, the theories and the research, and they relate the underlying conceptual frameworks to the negotiation phenomena being studied. They are being used as devices to deductively guide the data gathering activities (Miles and Huberman 1984).

The research design of this study was directed by eight general research questions that were derived directly from the literature review and the Sino-foreign negotiation model. They were confirmed and amended by the use of System Theory. The first question was descriptive and related to the firm general background, its brief PRC joint venture record, and its environmental constraints. The remaining seven questions were explanatory and related to the negotiation behaviours, process, strategies, outcomes, and cultural influences on negotiation. These eight general questions, listed in Figure 3.7, were then broken down into a number of specific, operational questions.
Chapter 3 - methodology

Figure 3.7    Research Questions

A   DESCRIPTIVE QUESTION
1. Describe the general background of your firm and your joint venture investments in the PRC market.

B   MODEL RELATED QUESTIONS
2. What economic, political/legal, social, and technological factors would influence the negotiation process?
3. What pattern of influence did the foreign firms exert on their negotiators?
4. How did the joint venture negotiation proceed from one stage to the next?
5. How did the foreign negotiators formulate strategies and how did they respond to their PRC counterparts’ strategies?
6. How important were the Chinese cultural elements e.g. "guanxi", "face", "reciprocity", "renqing" and "trust" to the Joint Venturing (JV) negotiations?
7. How did Problem Solving Attitude (PSA) e.g. information gathering and need fulfilment help negotiators to negotiate?
8. How satisfactory is the joint venture (JV) outcome?

This complete list of questions or interview guide was contained in the case study protocol in appendix D. This case study protocol and the interviewing guide represent directions to the researcher rather than to the interviewee. That is, the semi-structured questions are intended to direct the research during the data collection and may or may not be used as prompts during the interview (Ellis 1995). More broadly, these questions direct the researcher to a number of possible sources of evidence (Yin 1989 1993, 1994).

The interview guide was the most useful device for directing the data collection activities and ensured that the fieldwork remained focus by minimising the risk of data overload (Miles and Huberman 1994).

3.6  THE RESEARCH FIELDWORK AND TRIANGULATION

Figure 3.8    Characteristics of Case Study Sampling Firms

<table>
<thead>
<tr>
<th>Case no.</th>
<th>Organisation</th>
<th>Country of Origin</th>
<th>Industry</th>
<th>Successful JV?</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IBM</td>
<td>U.S.A.</td>
<td>Computer and related product</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Otis Elevator International Inc</td>
<td>U.S.A.</td>
<td>Lift and Elevator</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Bayer China Ltd.</td>
<td>Germany</td>
<td>Chemicals and related products</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Pacific Asia Link Ltd.</td>
<td>Indonesia</td>
<td>Telecommunication</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Synergie Investment Ltd.</td>
<td>Hong Kong</td>
<td>Software manufacturing</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Kenwah Enterprises Ltd.</td>
<td>Hong Kong</td>
<td>Edible oil and food products</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>Donaldson Far East Ltd.</td>
<td>U.S.A.</td>
<td>Air Filter</td>
<td>No</td>
</tr>
</tbody>
</table>
As mentioned in section 1.6 in chapter 1, the final number of organisations sampled was seven i.e. case no.1 to 6 are for literal replications and no 7 is for theoretical replication. These seven cases (six successful and one unsuccessful joint venture operator\(^1\)) represented six diverse industries. The organisations and industries are described in Figure 3.8 above. All of the interviewees gave verbal permission for the release of information including their names but only limited to production of this thesis.

The candidates for inclusion into the final sample were identified from 1) the directory of American Chamber of Commerce in Hong Kong 1996; and 2) personal contacts. American firms are the largest foreign investors in China by value (approximately 12%) besides Hong Kong, Macau and Taiwan in 1995 (Sum 1996). Most of these American firms use Hong Kong as a springboard to invest in China (Mun and Chan 1986) and it was logical to use the directory as a frame to select sample because of its heavy representation of foreign investors. Cook (1996) noted that 80% of the foreign investments were concentrated on various manufacturing industries in 1991. The resulting sampling procedure was to send letters to all members of the American Chamber of Commerce in the manufacturing industries. That means all organisations in the servicing industries i.e. consultancy, transportation, education were deliberately excluded from the sample. Likewise, all the restricted industries such as banking are not included in the sample because joint ventures are just not allowed in the present venture environment in the PRC. A standard letter explaining the purpose of the research together with the resulting model figure 3.5 and its corresponding strategic chart on figure 3.6 were send out to 243 members in various manufacturing industries.

It quickly became apparent that not only American firms can be listed on this directory. In fact, all firms can be listed if they are willing to pay a substantial membership fee. Therefore, one Indonesian firm First Pacific Asia Link Ltd. and one German firm Bayer China Ltd. were recruited from this directory. In total, only five firms were willing to participate in this case study research project. The extremely low response can be explained for the following reasons:

1. Some firms simply refuse to join this case study project because they did not perceive any favourable value for their participation; for example, one of the prospects, Mr. Lawrence Brahmov, owner & President of the NAGA group suggested by Mr. Alastair Britton of General Motor explicitly mentioned this reason in his reply letter;
2. Some firms did not want to release their information because of their unique industry nature. For example, Caltex emphasised in their reply letter that there are only limited number of players in their field, and therefore they were unwilling to release their information;

---

\(^1\) successful JV is defined as all parties are willingly operating the established JV and unsuccessful JV means that the JV parties are not happy and either party is intending to take over the other party.
3. Some firms were not allowed to set up Joint Venture (JV) in China according to the present Joint Venture laws in the PRC, e.g. British American Tobacco Co. Ltd. (BAT) Therefore, they could not participate in this project;

4. Some firms did not have joint venture (JV) and therefore they did not know how to set up JV in China. Logically, they could not provide information to the author e.g. Kodak;

5. A lot of firms have incorrect addresses on this directory and the letter had been returned to the author; and

6. A lot of firms simply did not reply for any specific reason.

The interviewees of the four firms which are successfully operating their joint ventures i.e. IBM, Bayer, Otis and First Pacific Asia Link have seen the model and the associated strategic charts which are identical to Figures 3.5 and 3.6 and have totally agreed with its conceptual context. As Mr. Luis Rodriguez -Director of Manufacturing, IBM remarked: “this model describes exactly what happen in joint venture negotiation in China.” These four firms, therefore, were suitable to be used to produce “literal replication logic, i.e. to predict similar result” (Yin 1994, p46). Donaldson, the only sample firm that failed in their China JV project was used as “a theoretical replication, i.e. to produce contrasting results but for predictable reasons” (Yin 1994, p.46).

After recruiting these five firms, the listing on the directory of American Chamber of Commerce was exhausted. The author of this thesis then turned to second source to recruit firms. Mr. Patrick Pang, General Manager of Hong Kong Beijing Air Catering Co. Ltd., as mentioned in pilot test section, is a personal friend of the author. He identified Mr. Daniel So, Managing Director of Synergie and Mr. Simon Li, Director of Kenwh Enterprises Ltd would have similar experience during the pilot test on this Chinese joint venture negotiation model. Mr. Patrick Pang made telephone introductions, and subsequently both of them granted interviews to the author of this thesis. The identification of these samples followed Miles and Huberman’s (1994, p.27) conceptually-driven sequential sampling procedure: “where initial choices of informants lead to similar and different ones; observing one class of events invites comparison with another; and understanding one key relationship in the setting reveals facets to be studied in other.’

**Figure 3.9 Employment situation of participating firms**

<table>
<thead>
<tr>
<th>Case no.</th>
<th>Organisation</th>
<th>Total group employment</th>
<th>Employment in China JV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IBM</td>
<td>241,000(^1)</td>
<td>over 1,000*</td>
</tr>
<tr>
<td>2</td>
<td>Otis Elevator International Inc.</td>
<td>50,000(^2)</td>
<td>over 3,000*</td>
</tr>
<tr>
<td>3</td>
<td>Bayer China Ltd.</td>
<td>142,000(^3)</td>
<td>under 3,000*</td>
</tr>
<tr>
<td>4</td>
<td>Pacific Asia Link Ltd.</td>
<td>52,800(^4)</td>
<td>200**</td>
</tr>
<tr>
<td>5</td>
<td>Synergie Investment Ltd.</td>
<td>500(^6)</td>
<td>40**</td>
</tr>
<tr>
<td>6</td>
<td>Kenwh Enterprises Ltd.</td>
<td>300(^6)</td>
<td>70**</td>
</tr>
<tr>
<td>7</td>
<td>Donaldson Far East Ltd.</td>
<td>5,000(^7)</td>
<td>40**</td>
</tr>
</tbody>
</table>
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* Refer to total employment in all Joint Ventures in China.
** Refer to employment in one joint venture project which the interviewee mentioned

1 IBM Annual Report 1996
3 Anonymous author, Bayer Report, June 1996
4 First Pacific Company Ltd. Annual Report Mar 1997
5 Based on Mr. Daniel So- Managing Director of Synergie estimate
6 Based on Mr. Simon Li- Director of Kenwah estimate
7 Donaldson Co. Ltd. International Directory of Company Histories 1996

The employment situation of all participating firms is listed in Figure 3.9. As the data indicated, these seven firms (no. 1 to 6 are for literal replications and no. 7 is for theoretical replication) range from very large firm to very small firms which serve the purpose of making generalisations while the diversity of industries across firms is intended to provide support for those similarities observed across firms.

3.6.1 Quality assurance in the field

One of the strengths of case study is the provision for data collection from a variety of sources resulting in rich, thick description and typically satisfactory measures of hypothetical constructs (Yin 1989). The evidence collected for this study was obtained from a variety of data sources including annual reports, press articles, trade publications, archival data, and personal interviews. Both primary and secondary data were collected, the sources for all secondary data collected are cited in the reference section at the end of the case reports contained in Appendix e.

This section is used to detail the action taken to ensure the quality assurance system that the author listed in section 3.3.1.

3.6.1.1 Construct validity

As mentioned in section 3.3.1, the author used multiple sources of evidence and chain of evidence to demonstrate the construct validity of a case. For example, in the IBM case, respondents mentioned that they presently have eight joint ventures in China. This information was later confirmed by the newspaper clippings and the annual reports which the author collected from the internet. The products manufactured by each joint venture was also cross checked with the information provided by Mr. Luis Rodriguez, IBM director of manufacturing. Similar procedures were applied to other multi or international firms i.e. Otis, Bayer, and Asia Link. Because information was difficult to collect for smaller firms such as Kenwah and Synergie from these channels, the author then went to other sources to confirm the evidence. The author went to their business associate, Mr. Patrick Pang who is the author’s personal friend to confirm the evidence. Subsequent telephone conversations with Mr. Li, Director of Kenwah and Mr. So, Managing Director of Synergie were also consistent on their joint venture negotiation experience.
Multiple sources of evidence were also applied to other sections within a case. For example, Mr. Vincent Kwan, Vice President of Otis perceived that they entered into joint venture negotiation in China because China will soon become the largest market of lift and elevator on the globe. This perception was later confirmed by researching views of other senior executive i.e. Mr. PL Foschi, Senior Vice president of Otis Pacific Asia Operation PAO on magazines and on newspaper. The same view was found on web site of Otis. Also, their orders from China totalled 5,000 lifts and elevators actually representing one third of their Pacific Asia Operation (PAO). Multiple sources were also used in other cases wherever possible. Concerning the cultural elements, the author of this thesis compared the informants’ responses with those of the in-depth interviewees and the literature that the author collected. Again, their responses were highly consistent. Other techniques were used to reduce bias when collecting cultural data that will be explained in a separate section.

Also, the chain of evidence technique was used in all cases. For example, the joint venture histories of these companies were collected. Bayer’s negotiation progress for various joint ventures were widely reported by their trade magazines Chemical Week and the Chemical Reporter. The information provided by their chief negotiators Dr. Jur Markus Arnold and Ms Celina Chew could then be cross-checked with these reports. Also, the Chinese joint ventures are widely reported on their web site. Collection of information from different issues of these magazines and trade journals provided a chain of solid proofs of their joint venture details.

The summary reports on chapter 5 were also sent to these informants for reviews. An opinion invitation form was attached to each complementary letter and invited them to fax their opinion and ideas concerning the validity of their cases. The letter also explicitly mentioned that if the author does not hear from them within two weeks, the author would assume the case materials are corrected. Eventually, all informants did not send any opinion to the author and therefore the factual information on each case is assumed to be accurate.

3.6.1.2 Internal validity

Pattern matching and explanation building were used to ensure the case internal validity. Wherever possible, the pattern exhibited on a case would be matched and compared to the existing literature that the author established in chapter 2 of this thesis. Explanation building according to established theories was also applied to ensure the internal validity of these cases. For example, the IBM decision-making pattern was matched with the theory related to the Strategic Business Group (SBU). This initial matching was again matched with the corporate organisation structure provided by Mr. Rodriguez. By analysing IBM’s data, an explanation was established concerning why IBM did not monitor the Chinese economic conditions at the post negotiation stage. These two techniques were also used in validating the facts of other cases. The time series analysis technique could only be used in the time series of
companies' joint venture histories but not their negotiation experience due to limitation of only few interviews granted by the informants.

3.6.1.3 External validity

Replication logic was adopted to guide sample selection. The samples were selected from a wide selection of industries. The samples included multi-national, international, and small Hong Kong based firms. The selection of these firms with successful joint venture negotiation experience support the conclusion at the end of this chapter that there is "compelling support" for the underlying model or template.

3.6.1.4 Reliability

The case study protocol was developed through literature review and confirmed by using system theory (Checkland 1985) which was later confirmed by a pilot study with Hong Kong Beijing Air Catering. These procedures established the reliability of the case study protocol. This protocol was then used in the actual fieldwork subsequently.

The case study database which contains the documentary evidence, the case study field notes and other related materials are being retained by the Department of Business Studies, Hong Kong Polytechnic University. The purpose of retaining this database is for future researchers to review and to infer independent but similar findings when they so desire.

3.6.1.5 Bias

Avoiding biases stemming from researcher effect on the site

The author of this thesis observed the rules specified in section 4.4.6 in regard to the informants' sites. Before going into the discussion topic, the researcher stated unequivocally the purpose of the visits and guaranteed the confidentiality of the conversation. The researcher adopted an objective mode by opening the case study interview with a standard statement "I have developed an interest in joint venture negotiation in China from the foreign firms' perspective and you may have an insight on it. My feeling is...". During the interview, the researcher talked as little as possible to give ample opportunity for the informants to reveal their joint venture negotiation experience in the PRC on the one hand and avoided injection of own experience into the conversation to influence the informants' flow of ideas. In all cases, the researcher would ask for a tour of the informants' offices so that friendship could be established with the informants to explore more information in an unobtrusive environment. This tactic was successful with IBM and Bayer. In addition, the interview with Mr. Li of Kenwah was conducted in a restaurant to
reduce researcher's exorcism quotient for informant. This strategy was effective to relieve Mr. Lie's tension to talk to an academic because of his low level of education background. However, the tactics of office touring and interviewing in a congenial social environment were not applicable to all cases due to 1) uncooperative attitude of the informants and 2) the limitation of time extended by the informants to the researcher.

Avoiding biases stemming from the effect of the site on the researcher

The author of this thesis attempted to put the suggestions of section 4.4.6 firmly in mind. However, due to an uncooperative attitude of the informants, the author was unable to talk to other informants except the chief negotiators of these foreign firms. Therefore some of the suggestions could not be applied. For example, the first, third and fifth points section 3.3.1.5 (b). Other than these, the author endeavoured to apply these suggestions in the actual fieldwork.

Before the date of the interview of a particular foreign firms, the researcher thoroughly searched the information about the interviewing firm from the following sources:

1. The internet,
2. The Hong Kong Polytechnic University library about that company’s history and their joint ventures in China,
3. Newspaper clippings.
4. Trade magazine.

In case that company has local operation, the company product brochures were also collected. The information collected from the above sources were cross-referenced with the research questions. In other words, the researcher had obtained vast amount of information about company's joint venture in China including the number of joint venture, the nature of each joint venture, and probably the share holding situation of the foreign firm versus their Chinese partner(s).

The above helped the researcher to keep the research questions firmly in mind and conceptually translated their joint venture format with a particular Chinese partner into a theoretical template. For example, the major share holding structure of Bayer in one of their joint ventures in the PRC suggested that Bayer used their joint venture partner as a tool to satisfy the joint venture legal requirements in China (Bayer Wuxi Leather Chemicals). It also indicated that the Chinese partner needed Bayer technology and capital very badly to revitalise their operations. This information was useful when the interviewee was trying to mislead the researcher and enabled the researcher to find out why the informant took this action. In any case, the researcher's objective was to let the informant talked and would not deliberately show off his knowledge because it may derail the informant's flow of thought.
After the fieldwork, the field notes were shown to the researcher’s colleagues to detect any misleading information. The misleading information would be subsequently confirmed with the informants. For example, the researcher confirmed information with Asia Link and Synergie.

3.6.2 Triangulation

After the fieldwork, the author of this thesis endeavoured to triangulate the field notes with the information collected. According to Patton (1990) there are four types of triangulation 1) method triangulation, checking through the consistency of findings generated by different data-collection methods; 2) triangulation of sources, checking out the consistency of different data sources within the same method; 3) analyst triangulation, using multiple analysts to review findings; and 4) theory/perspective triangulation, using multiple perspectives or theories to interpret the data.

Each of these methods will be discussed and the rationale of adapting them will be presented.

3.6.2.1 Methods Triangulation

Triangulation of methods will most often revolve around comparing data collected through some kind of qualitative methods with data collected through some kinds of quantitative methods. This is seldom a straightforward process because it is likely that quantitative methods and qualitative methods will eventually answer different questions that do not easily come together to provide a single, well-integrated picture of the situation (Patton 1990).

Triangulation of methods has its merit because it obtains insights from both qualitative and quantitative measures. However, this method comes with operational difficulty. Shapiro (1972) described in detail her struggle to resolve basic differences between the qualitative and quantitative data in her study of Follow through Classrooms. She eventually concluded that some of the conflicts between the two kinds of data were a result of measuring different things, although the ways in which different things were measured were not apparent until she worked to sort out the conflicting findings. She began with greater trust in the data derived from quantitative methods and ended by believing that the most useful information came from the qualitative data.

The above example implies that 1) respondents may have different attitude toward qualitative and quantitative research and therefore they give different answers; and 2) if this method is to be adopted, enormous efforts must be spent on rationalising the data coming from these two sources. In view of limited resources in this study, this triangulation method is not endorsed.
3.6.2.2 Triangulation of Qualitative Data Sources

This method of triangulation involves triangulating data sources. This means comparing and cross-checking the consistency of information derived at different times and by different means within qualitative methods. It means 1) comparing observational data with interview data; 2) comparing what people say in public with what they say in private; 3) checking the consistency of what people say about the same thing over time; and 4) comparing the perspectives of people from different points of view—staff views, client views, supporters’ views, and views expressed by people outside the program. It means validating information obtained through interviews by checking program documents and other written evidence that can corroborate what interview respondents report (Patton 1990).

This method is endorsed because it can greatly improve evaluation result (Smith and Kleine 1986). Readers should note that, out of the above four comparing methods, observation was not applicable because it is absolutely not allowed in a real joint venture negotiation assignment due to the protection of commercial information by foreign firms. Therefore, only the last three ways of comparison were employed in this study.

In the Otis case for example, the view given by Mr. Kwan, vice president of Business Development, was compared with the view of other staff members within the same firm such as Mr. PL Foschi, Senior Vice President of Pacific Asia Operation (PAO) and Mr. William B. Johnson, General Manager of Otis Shanghai. Their views towards the Chinese market were highly consistent. However, when comparing Mr. Kwan’s view on cultural elements such as guanxi and face with other respondents from other foreign firms such as that of Mr. Rodriguez, their views produced inconsistent result; i.e. Mr. Kwan perceived that guanxi and face are cultural respect and Mr. Rodriguez conceived them as ways of building up connection. The inconsistency is not unexpected. It simply means that different kinds of data have captured different things and so the analyst attempts to understand the reasons for the differences (Patton 1990). In fact, according to Porter’s (1980) theory of competitive advantage, Otis had more bargaining power because they are operating in an oligolistic market. Otis, their business partners and their clients basically know that mutual respect is very important in a market that is characterised by intra-dependent relationships. Unlike Otis, IBM has been operating in highly competitive markets, therefore, they have to establish connections as a means to extend their business.

3.6.2.3 Triangulation through multiple analysts

A third kind of triangulation is investigator or analyst triangulation, that is, using multiple as opposed to singular observers or analysts. Triangulating observers, or using several interviewers, “helps reduce the potential bias that comes from a single person doing all the data collection and provides the means of
more directly assessing the reliability and validity of data obtained" (Patton 1990 p.468). Douglas (1976) articulates the importance of team efforts in fieldwork.

This method is ideal in a sense to reduce bias and increase validity of this study. However, it is against the idea of a PhD study i.e. an output based on hard and solitary work of a researcher (Perry 1994). Therefore, this method is not endorsed. However, Patton (1990) suggests another approach to analytical triangulation; i.e. the author should request those who were studied to review the findings. Evaluators can learn a great deal about the accuracy, fairness, and validity of their data analysis by having the people described in that data analysis react to what is described. This is acceptable to the author and also it coincides with the steps of ensuring construct validity that is described in figure 4.3 in this chapter. Therefore, this method is partially accepted in a sense that the findings will be sent to the respondents for review.

3.6.2.4 Theory Triangulation

This method involves using different theoretical perspectives to look at the same data. It aims at understanding how findings are affected by different assumptions and fundamental premises (Patton 1990). Chen and Rossi (1987) have emphasised the importance of a ‘theory-driven’ approach to validity in evaluation.

This method is heavily used during the course of this research. The analytical framework described in figure 2.26 of chapter 3 already indicates that joint venture negotiation is to be investigated from three perspectives 1) the marketing perspective 2) the psychological perspective and 3) the economic perspective. Also, the joint venture negotiation aspects are to be studied from the Sino-foreign perspective. This framework has already been proved to be valid and it has been published in the European Journal of Marketing (Buttery and Leung 1998). The collection of data according to the research protocol also reflects the use of different theories.

To conclude, the triangulation process follows vigorous methods as described above. The author used 1) triangulation of qualitative data sources method, 2) respondent review approach in the triangulation through multiple analysts method and 3) the theory triangulation method. These different types of triangulation were all strategies for reducing system bias in the data. In each case the strategy involved checking findings against other sources and perspectives. Triangulation is a process by which the researcher can guard against the accusation that a study’s findings are simply an artefact of a single method, and a single source. The process aims at producing valid data collection and analysis that contributes to the construction of valid recommendation.
3.6.3 Analysis of qualitative data

The data collection activities culminated in the completion of a formal retrievable database containing 48 pages of organised field notes, 75 pages of single-spaced interview transcripts, and 210 pages of related documents such as journal articles related to those firms, annual reports, internet reports and press release articles. This evidentiary database exists independently of the seven case reports and consists of enough information to allow other researcher or auditor to infer their own independent conclusions about each case (Yin 1989). This database improves the reliability of the case study.

QSR NUD.IST, for Non-numerical Unstructured Data Indexing, Searching and Theorising, is a software package designed “to aid users in handling non-numerical and unstructured data in qualitative analysis” (Anonymous author, User Guide for QSR NUD.IST 1995, p.2). It was used to organise or to index text data so that it can be retrieved and explored via the hierarchical order of an index ‘tree’. It is the index tree that gives the logical linkage between the data document files and the various index categories which came from the literature review in chapter 2 and chapter 3 of this thesis. The index tree starts at a common root and then splits at ‘nodes’ in a hierarchical fashion with increasing level of specificity (Ellis 1995). Each node is both a child above it and a parent of those nodes below it. In fact, the index tree is a roadmap to the evidentiary database. QSR NUD.IST was used for two activities. First, each interview was entered into QSR NUD.IST as on-line documents. Second, all online documents including the literature reviews were analysed according to the key words that were pre-determined according to the theoretical framework.

3.7 LIMITATION OF CASE STUDY METHOD

The author of this thesis has endeavoured to maintain the quality of the field by following vigorous procedures as specified in previous sections and the collection of evidence from multiple sources proposed by Yin (1994). He advocates that the evidence should be collected from six sources: a) documentation which includes letters, memoranda, other communiqués, agendas, announcements, minutes across the board to newspaper clippings; b) archival records which include services and organisational records, maps and charts, survey data and personal records; c) interviews which include open-ended and focused interviews; d) direct observation by the research; e) participant observation in which the researcher does not observe but also participates in the actual event being studied and f) a collection of physical or cultural artefacts to provide evidence which is widely used in anthropological research. Some sources of evidence are also emphasised in the research protocol to increase the reliability of this research. However, while the procedures of data collection in the field were largely guided by the research protocol, the actual data generated from the field were largely affected by the degree of co-operation from the firms that in turn affected the amount of data available to the field researcher.
Firstly, direct observations, participant-observation and the collection of physical artefacts regarding the participating firms' joint venture negotiation were not possible because these practices call for intrusion into their commercial secrets. Therefore, the collection of data from these three sources of evidence was not endorsed, and the author of this thesis did not include them on the research protocol.

Secondly, the collections of data from documentation and archival records were recommended on the protocol but they were only partially effective because supply of company internal memos, letters, personal records have been perceived as a release of sensitive information to the public. The author of this thesis has monitored this "trend" very carefully by consistently emphasising all correspondence that all information collected would not be disclosed except for the production of this thesis. Nevertheless, the companies in Hong Kong are very suspicious in regard to releasing information. It was proved to be absolutely accurate. As Dr. Jur Markus Arnold- General Counsel (China) of Bayer China Ltd stressed "on top of our proposal, we mainly supply published information to our joint venture prospects in China." This attitude limited the release of information in the form of memos, letters, and other internal records from the interviewees during the company interviews. Therefore, the triangulation of data from multiple sources is relied on the data coming from newspaper clippings, annual reports, computer/internet records, and other published information sources such as journal articles. As a result of such a search, vast amounts of information were available to multi-national and international firms in the sample, i.e. IBM, Otis, Bayer, First Pacific Asia Link and Donaldson. This information, together with the interviews with top company executives produced an insightful documentary database mainly in the form of individual case reports.

The evidence for small firms in the sample i.e. Synergie and Kenwah, due to the lack of secondary data, were mainly generated from the personal interviews with their Managing Director, Mr. Daniel So and their Director, Mr. Simon Li respectively. Bias may exist due to their poor recall abilities. However, the author of this thesis has requested them to recall the most recent negotiation experience and has attempted to minimise bias.

Finally, the model is comprehensive and involves an investigation of the behaviour of both Chinese and foreign negotiators. However, limited resources only allow the author to take a 'outside in' perspective to investigate the joint venture negotiation phenomena from the foreign negotiators' point of view. The 'inside out' perspective i.e. the investigation of the joint venture negotiation behaviour from the Chinese point of view, will be reserved to future research in this area.

3.8 CHAPTER CONCLUSION
This chapter described various research paradigms that are available to the author of this thesis. Their merits and demerits have been fully revealed and study method was justified as the most appropriate research strategy.

The author of this thesis detailed the nature of case study to clarify the traditional misconception toward case study characteristic of limited data point. It was found that case study method stands as the method of choice because the phenomenon (i.e. Sino-foreign joint venture negotiation) is causally complex and variables are not mutually exclusive. The discussion of procedures to ensure the quality of case study research i.e. construct validity, internal validity, external validity, reliability and bias were also described in depth. The sampling design and data collection method was fully explained. The definition of a case, the unit of analysis, its geographical selection, sampling frame, within case selection, cross case analyses and sampling size was elaborated.

The model developed in chapter 2 was validated through in-depth interview with five experienced negotiators. The basic concept of the model was proved to be absolutely correct and the model was refined according to interviewees’ comments. The research questions in the preliminary research protocol were developed through system theory. They were pilot-tested and refined based on the comments coming from Hong Kong Beijing Air Co. Ltd. The last section described the field work procedures. The precautions taking of ensuring quality in the fieldwork were fully explained. Also the limitation of this research was also disclosed.

This chapter extensively discussed the methodology to carry out this study. The resulting seven cases from the field work are fully presented in appendix e of this thesis and their summaries which mainly contain the analyses of cases are contained in chapter 4. The cross case/site analyses are given in chapter 5. Chapter 6 is conclusion and recommendation.

This chapter has four major findings:

- It was found case study method is the most appropriate method to carry out this research;
- It rectified and confirmed the comprehensiveness of the Sino-foreign joint venture negotiation model through five in-depth interviews. The in-depth interviewing schedule is contained in appendix b of this thesis;
- It was also pilot-tested and this pilot-test is contained in appendix c of this thesis; and
- It amended and proved the comprehensiveness of the set of research questions that the author of this thesis developed in chapter through literature review.

The above three findings help the author of this thesis:
Chapter 3 – methodology

- To include a set of research questions in the research protocol that is contained in appendix d of this thesis;
- To decide to carry out the fieldwork based on this research protocol. The resulting 7 comprehensive cases (6 literal and 1 theoretical replication) were contained in appendix e as part of the documentary database;
- To submit the 7 comprehensive cases (6 literal and 1 theoretical replication) for within-case analyses that are contained in chapter 4 of this thesis.

This chapter is important because it has developed a full set of research instrument that contains 1) in-depth interviewing schedule (appendix b) and 2) a complete research protocol (appendix d) and 7 comprehensive cases as part of the documentary database (appendix e). They are important for future researchers to conduct similar research and also allow them to determine independent conclusions on this study (Yin 1994).

This chapter also contains absolute correct method and fieldwork procedures that result in generating quality cases for further analyses in chapters 4 and 5. Without these vigorous procedure and quality assurance systems in this chapter, the implementation and assurance of this study are not possible. The author of this thesis will present the within case analyses and cross-case analyses in chapters 4 and 5.
CHAPTER 4  CASE/SITE SUMMARY

4.1 INTRODUCTION

The findings in previous chapters indicated that Sino-foreign joint venture negotiation is a holistic process and relationship should be emphasised throughout this process. During the literature review of comparing and contrasting the similarities and differences between Western transaction and Chinese relationship paradigms, a set of research questions and a holistic Sino-foreign joint venture negotiation model have been developed. As explained in chapter 3, case study method is the most appropriate method to carry out this study. Also, the comprehensiveness of the research questions and the Sino-foreign joint venture negotiation model has been ensured and fieldwork had been carried out. The author found that the Western and Chinese negotiators carried out negotiation as the Sino-foreign joint venture negotiation model predicted by using the prescribed research protocol in appendix d in this thesis. All case studies are contained in appendix e for future researchers to determine their independent conclusions. The format of presenting these case studies follows the sequence of the research questions as specified in the research protocol contained in appendix d.

The major findings affect the construction of this chapter. This chapter will follow the sequence of the research questions listed in chapters 2 and 3 and presents independent within case analyses on all firms specified in chapter 3 figure 3.8. However, it only aims at providing the company backgrounds and the key findings in the within-case analyses so as to save readers' time to read through complete cases in appendix e. As mentioned in section 1.6 of chapter one and section 3.6 of chapter three, the first six cases are for literal replications. Generalisations from one case to the next are made on the basis of a match with the Sino-foreign joint venture negotiation model. Subsequent cases were conducted to extend the Sino-foreign joint venture negotiation model to a broad range of generalisations and it provides the confidence that the emerged model is generic. These six cases are used to predict similar result (Yin 1994). The seventh case is used to give contrasting result so as to prove the importance of the Sino-foreign joint venture negotiation model in China business. The seventh case is used to produce contrasting result but with predictable reasons (Yin 1994).

This chapter contributes to the overall development of the thesis.


It serves as an evidentiary proof on the validity of the Sino-foreign joint venture negotiation model that the author of this thesis confirmed in chapter 3;

- It establishes the convergent evidence on answering the research questions that the author of this thesis validated in chapter 3; and
- It also facilitates a larger argument in the cross case analyses in chapter 5 based on these convergent evidence so that the major research problem in chapter 1 can be answered; and
- It provides an evidentiary database that the author of this thesis can draw on when making recommendations in chapter 6 of this thesis.

Readers should also note that the term “case” and “site” appear at the same time in the chapter title and various places in this chapter. The term “case” is normally used to reflect the methodology “case study” in this thesis. However, Miles and Huberman (1984, 1994) argue that the term “site” should also be used to indicate a bounded context where one is studying something. In order to reflect the case study methodology and the bounded context, the term “case” and “site” will appear simultaneously in this chapter.

### 4.1.1 Chapter objectives

The objectives of this chapter are:

- To conduct within-case/site analysis for each individual case to justify replication on subsequent cases;
- To draw independent and overall conclusion based on the within-case/site analyses so as to justify the cross-case/site analyses in chapter 5.

### 4.1.2 Chapter structure

The order of the cases/sites follows the sampling frame described in section 3.6 of Chapter 3 and is shown in figure 4.1. No. 1 to 6 case/site studies are literal replications and no. 7 case/site study is a theoretical replication.
Figure 4.1  
Company case/site

<table>
<thead>
<tr>
<th>Case</th>
<th>Organisation</th>
<th>Industry</th>
<th>Successful JV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IBM</td>
<td>Computer and related product</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Otis Elevator International Inc.</td>
<td>Lift and elevator</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Bayer China Ltd.</td>
<td>Chemicals and related products</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Pacific Asia Link Ltd.</td>
<td>Telecommunications</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Synergie Investment Ltd.</td>
<td>Software manufacturing</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Kenwah Enterprises Ltd.</td>
<td>Edible oil and food products</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>DONALDSON FAR EAST LTD.</td>
<td>AIR FILTERS</td>
<td>NO</td>
</tr>
</tbody>
</table>

The cases/sites were selected according to the procedures that were fully explained in section 3.6 of chapter 3. Because of resource limitation, only six firms were selected for literal replication and one firm for theoretical replication. The relevant population was defined as foreign firms that had successfully negotiated joint venture projects (literal replications) or unsuccessfully negotiated joint venture (theoretical replication) in the PRC. They were chosen on conceptual grounds and from different industries rather than having the aim of getting a representative mix of firms. The aim was to rule out possible industry-specific effects and demonstrate that the underlying model is generic by identifying those elements that are common to all Sino-foreign joint venture negotiation practices.

Each individual case/site study consists of a “whole” study, in which converge evidence is sought regarding the facts and conclusions for the case; each case conclusions are then considered to be the information needing replication by other individual cases (literal replications). The stage within this study is shown in figure 4.2 below. As mentioned previously, an unsuccessful case “Donaldson” will be used to demonstrate contrasting result but with predictable reasons (theoretical replication). The within-case/site analyses will be submitted to cross-case/site analyses in chapter 5 to compare findings in individual cases. If all cases produce similar findings in an aggregate manner, it is said to have compelling support for the initial proposition of the underlying theory i.e. Sino-foreign joint venture negotiation model in this study (Yin 1994). The case “Donaldson” is used to demonstrate a contrasting result of “negotiation failure” if a firm does not follow the negotiation model as suggested in figures 3.5 and 3.6 in section 3.4.2.2 in chapter 3. The process of within-case/site and cross-case/site analyses satisfies the case study tactics for scientific rigor i.e. construct validity, internal validity, external validity, reliability and bias avoidance which were fully explained in section 3.3.1 and 3.6.1 to 3.6.2 in chapter 3. The administration of the research questions to individual firms strictly followed the procedures established in appendix d “The Final Case Study Protocol” of this thesis.
The relationship of individual cases to the overall research design

The figure indicates that the initial step in designing the study must consist of theory development that the author had developed it in Chapter 2 of this theory. The research design had also been established in Chapter 3 that is based on case study method. It is determined an imbedded design is appropriate for this study. This chapter is to write individual cases after the fieldwork had been carried out. Each individual case study consists of a "whole" study, in which converge evidence is sought regarding the facts and conclusions for the case; each case's conclusions are then considered to be the information needing replication by other individual cases.

Only the within-case/site analyses and their independent conclusions are contained in this chapter to save the readers' time to go through the full reports of all cases. The comprehensive reports for all cases/sites are contained in appendix e of this thesis. The format of each within-case/site analysis will follow the sequence of the research questions on figure 3.7 in chapter 3. The within-case/site analyses establish the internal validity of the Sino-foreign joint venture negotiation model. The strict application of the procedures established in appendix d “The final Case Study Protocol” ensured the reliability of the individual cases.

**4.1.3 Report format**

Each case/site report in this chapter follows the format below:

- **Background**
- **Within-case analysis**
  - Environment
  - Organisational constraints
  - Joint venture negotiation strategies and process
  - Joint venture negotiation pillar
  - Joint venture outcome
- **Conclusion**

The structure of this report format is justified below:

**BACKGROUND**

This section is to give background of the company under study. The collection of data was directed by the first descriptive question on figure 3.7 in chapter 3:

- Describe the general background of the firm and the joint venture investments in the PRC market.

Its detailed sub-questions can be found in the complete research study protocol in appendix c.

**WITHIN-CASE ANALYSIS**

This section aim at collecting evidence to answer the main research problem stated at the beginning of chapter 2:

- How do the foreign and Chinese parties who come from different cultural background negotiate for a successful settlement in a joint venture under the organisational constraints and the Chinese environmental context?

It consists of five sections: 1) environment, 2) organisational constraints, 3) joint venture negotiation strategies and process, 4) joint venture negotiation pillar, and 5) joint venture outcome.
Environment

This section is to give an analysis to the foreign firm’s strategic environment in China that follows Hunger and Wheelen’s (1993) strategic framework i.e. the economic, political/legal, cultural and technological factors. However, giving the arguments that cultural factors are so important that they are an essential part of the negotiation process, the cultural factors should act as part of the negotiation pillar. The full argument can be found in chapter two. In saying that, Hunger and Wheelen’s (1993) cultural factors are vital and must be the core supportive pillar in the Sino-foreign joint venture negotiation model. Therefore, this section is to give analysis on only three environmental factors i.e. economic, political/legal and technological factors. The Chinese cultural factors will be discussed in the negotiation pillar section.

The data collection of this section is driven by the descriptive question:

- What economic, political/legal and technological factors would influence the joint venture negotiation process?

The descriptive question and its sub-question can be found in “The Final Case Study Protocol” in appendix d.

Organisational constraints

This section is to give analysis on the influence pattern that foreign corporate offices exert on their PRC negotiators. The evaluative business dimensions follow the items of a joint venture contract proposed by Golden (1988). The data collection of this section is directed by the research question:

- What influence did foreign firms’ corporate offices exert on their negotiator?

This research question and its sub-questions can be found in “The Final Case Study Protocol” in appendix d.

Joint venture negotiation strategies and process

This section is to give an analysis on the Sino-foreign joint venture negotiation strategies and process. The data collection process is driven by two research questions:

- How did the joint venture negotiation proceed from one stage to the next?
- How did the foreign negotiators formulate strategies and how did they respond to their PRC counterparts’ strategies?
The research questions and their sub-questions can be found in “The Final Case Study Protocol” in appendix d.

**Joint venture negotiation pillar**

As mentioned in figures 3.5, the Sino-foreign joint venture negotiation is supported by two important concepts: 1) the Chinese relationship culture and 2) the psychological aspect.

The Chinese relationship culture consists of five elements: a) guanxi, b) face, c) reciprocity, d) renqing, and e) trust. The psychological aspect means that negotiators need to equip with problem-solving attitude (PSA) which consists of two elements as suggested by Graham (1985): a) information gathering, and b) need fulfilment.

The data collection of the Chinese relationship culture is driven by the following research question:

- **How important were the Chinese cultural elements e.g. “guanxi”, “face”, “reciprocity”, “renqing” and “trust” to the Joint Venturing (JV) negotiation?**

The data regarding negotiators’ problem-solving attitude (PSA) is collected by a research question:

- **How did the problem solving attitude (PSA) e.g. information gathering and need fulfilment help negotiators to negotiate?**

The two research questions and their sub-questions can be found in “The Final Case Study Protocol” in appendix d.

**Joint venture outcome**

The data collection of the joint venture outcome is driven by the following research question:

- **How satisfactory is the joint venturing (JV) outcome?**

The research question and its sub-questions can be found in “The Final Case Study Protocol” in appendix d.

**Conclusion**

An independent conclusion will be drawn which demonstrates how well the data fits into the proposed Sino-foreign joint venture negotiation model.
4.1.4 Company Profile

The last section presented the reporting format. This section is to describe the profiles of all foreign firms and the details of their joint ventures in China are summarised below. Three of them are U.S. based, two Hong Kong based, one is German and one Indonesian-based. The products they produce cover six industries and are diversified from consumer goods to heavy industrial products i.e. edible oil (Kenwah), computer software (Synergie), computer and related products (IBM), telecommunication (Pacific Link), chemical and related products (Bayer) and lift and elevators (Otis). Besides the diversity in industrial nature, these companies also vary in size. For example, IBM employs over 241,000 people and their products are represented in most of the countries on the globe whereas Kenwah and Synergie are small companies that only operate in Hong Kong and China. By obtaining negotiation stories from companies of diversified nature, the application of the Chinese joint venture negotiation model confirmed in figures 3.5 and 3.6 in chapter 3 can be tested under a spectrum of industries which are varied in nature and size.

Figure 4.3 Profile of foreign firms

<table>
<thead>
<tr>
<th>Case</th>
<th>Organisation</th>
<th>Country of Origin</th>
<th>Industry</th>
<th>Total Group employment</th>
<th>No of Joint venture in PRC mentioned</th>
<th>Are they fully operational</th>
<th>No of employment in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IBM China/Hong Kong Corporation Otis Elevator International Inc.</td>
<td>U.S.A.</td>
<td>Computer and related product</td>
<td>241,000</td>
<td>8</td>
<td>Yes</td>
<td>over 1,000</td>
</tr>
<tr>
<td>2</td>
<td>Bayer China Ltd. Pacific Asia Link Ltd. Synergie Investment Ltd. Kenwah Enterprises Ltd. DONALDSON FAR EAST LTD.</td>
<td>Germany</td>
<td>Chemicals and related products Telecommunication</td>
<td>142,000</td>
<td>10</td>
<td>Yes</td>
<td>under 200</td>
</tr>
<tr>
<td>3</td>
<td></td>
<td>Indonesia</td>
<td>Software manufacturing</td>
<td>52,800</td>
<td>1</td>
<td>Yes</td>
<td>40</td>
</tr>
<tr>
<td>4</td>
<td></td>
<td>Hong Kong</td>
<td>Edible oil and food products</td>
<td>300</td>
<td>1</td>
<td>Yes</td>
<td>70</td>
</tr>
<tr>
<td>5</td>
<td></td>
<td>U.S.A.</td>
<td>Air Filter</td>
<td>5,000</td>
<td>1</td>
<td>No*</td>
<td>40</td>
</tr>
</tbody>
</table>

* The joint venture negotiation of Donaldson and its Chinese partner was considered a failure by Mr. Kenneth Yeng-Divisional Manager of Torit Products because they did not deeply discuss the negotiation items before the joint venture commenced its operation. Donaldson was considering a total take-over of the joint venture at the time of the interview with the author of this thesis.
Figure 4.4  Names and Positions of informants

<table>
<thead>
<tr>
<th>Case</th>
<th>Organisation</th>
<th>Name(s)</th>
<th>Position(s) within their company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IBM China/Hong Kong Corporation</td>
<td>Mr. Luis E. Rodriguez</td>
<td>Director of Manufacturing</td>
</tr>
<tr>
<td>2</td>
<td>Otis Elevator International Inc.</td>
<td>Mr. Vincent P Kwan</td>
<td>Vice President-Business Development</td>
</tr>
<tr>
<td>3</td>
<td>Bayer China Ltd.</td>
<td>Dr. Jur Markus</td>
<td>General Counsel (China)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Arnold</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Pacific Asia Link Ltd.</td>
<td>Ms. Celina Chew</td>
<td>Legal Counsel</td>
</tr>
<tr>
<td>5</td>
<td>Synergie Investment Ltd.</td>
<td>Mr. Stewart K.C. Lee</td>
<td>Vice President</td>
</tr>
<tr>
<td>6</td>
<td>Kenwah Enterprises Ltd.</td>
<td>Mr. Daniel K.K. So</td>
<td>Managing Director</td>
</tr>
<tr>
<td>7</td>
<td><strong>DONALDSON FAR EAST LTD</strong></td>
<td>Mr. Kenneth Yeng</td>
<td>Director</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Divisional Manager-Torit Products</td>
</tr>
</tbody>
</table>

All informants are top executives and chief negotiators of their companies and their names and positions are summarised in figure 4.4.

### 4.1.5 Scales of analyses

The most serious and central difficulty in the use of qualitative data is that methods of analysis are not well formulated. For qualitative data, there are clear conventions researchers can use. But the analyst faced with a bank of qualitative data has very few guidelines for protection against self-delusion (Miles and Huberman 1984). As such, the analyses on qualitative data require the researcher’s perception on the research study’s uniqueness (Patton 1990). A reflection of that uniqueness requires special tools or scales when the researcher is doing analyses. In this study, the question of “what” strategy the foreign negotiators use in negotiating a joint venture project with their Chinese counterparts is definitely ‘quantitative’ in nature and attempts to list out the strategies which were used in a company’s negotiation process. To establish whether a company follows the strategies proposed at individual stage of the joint venture negotiation process, a matching process of the company’s negotiation strategies with the ideal joint venture negotiation strategies on figure 3.6 in chapter 3 is used to reflect that ‘quantitative nature. The question of ‘how’ important the cultural elements are in the process of joint venture negotiation, on the other hand, is to test the ‘extent’ of their importance to Sino-foreign joint venture negotiation. There is no such thing as ‘ideal’ importance and therefore the adoption of an ‘ideal’ reference criterion is impossible. Hence, an importance scale is used to test the ‘extent’ of that importance according to the factual information available in the case.

In the following section, the format of analyses will be discussed. The same format will be used in all within case analyses that help the establishment of consistency and make cross case comparison possible.
Cross-cultural negotiation is an important part of a firm's internationalisation process. However, the firm's initiative to negotiate a joint venture project in a country with a unique culture such as China is largely depended on that firm's perception on the encouragement coming from environmental context surrounding that firm. The level of encouragement revealed indicates the opportunity and pressure exerting on that firm.

To measure the encouragement coming from its environmental context, a 3-level scale i.e. strong, moderate and low encouragement will be used which is identical to that of Miller (1978, p 338) when he studied country’s encouragement on the internationalisation of a firm. To qualify for a particular rating on an environmental variable, the evidence associated with that element must satisfy three criteria:

- The quantitative aspect or the number of evidence associated with that environment;
- The qualitative aspect or the ‘weight’ associated with each evidence; and
- Whether that evidence carries positive or negative influence on the overall encouragement level.

Examples of formulating these encouragement levels can be cited in figure 4.6 in the IBM case. The evidence of huge economic growth in general and high growth in major cities has positive relationship with marketing activities (Keegan 1995; Kaynak and Hudanah 1987; Drucker 1958). If negotiation is considered as a marketing activity as proposed by Buttery and Leung (1998), then the two-fold evidence alone can qualify IBM to operate in an economic environment that has a strong encouragement rating. When the evidence of rich human resources is added, IBM surely will qualify for a strong encouragement rating in the economic environment because the combination of all the evidence satisfies the above three criteria. Likewise, IBM should obtain a strong rating on its technological environment. There are five types of evidence so that the quantitative criterion is warranted. The “weight” of evidence “co-operation with the Ministry of Electronic (MOE)” is a heavy weight because most of the State Owned Enterprises (SOEs) are associated with their respective ministries. However, the evidence “intense competition in the technological environment” brought down the overall rating from “strong” to “moderate” because competition puts pressure on a firm’s operation in an industry (Baker 1992; Kotler 1994, Keegan 1995).

On the examination of the satisfaction level of joint venture outcome of a firm, a 3-level scale i.e. high, moderate, and low satisfaction will be used which is identical to that of Miles and Huberman (1984, p 164) when they examined the satisfaction level in social organisation. The rules of assigning the satisfaction levels are identical to those of assigning rating to environment context.

On the analyses of two components: 1) organisational constraints on foreign firm, and 2) joint venture negotiation pillar, a four level scale i.e. strong, moderate, weak and nil will be used which is borrowed directly from the cross-case analytic table used to display the findings of New Zealand
economy (Crocombe, Enright, and Porter 1991, figure 48). The application of the scale can be understood by looking at IBM case in figure 4.7 (Extent of influence from corporate head office and regional head office). The 10 business decisions listed on figure 4.7 were shown to Mr. Rodriguez, the interviewee of IBM and the author of this thesis and Mr. Rodriguez actually ranked these business decisions together. The procedures are shown below:

- The 10 business decisions were shown to Mr. Rodriguez and asked him whether IBM corporate/regional office has exerted strong or nil influence on these decisions. Mr. Rodriguez immediately gave a strong influence rating to the decisions of “degree of technology”, “transfer of IBM logo” and “transfer of intellectual property right and licensing”. Reasons for the strong influence rating were fully discussed. Likewise, the nil influence rating given to “expatriates’ expense” and “labour allowance” were also diagnosed; and

- The author of this thesis rigorously discussed the rest of the 10 business decisions together with Mr. Rodriguez and then assigned a moderate or weak influence to these ten dimensions. For example, Mr. Rodriguez mentioned that they only have to inform their head/corporate head offices on any investment amount if it was within 150% of the pre-approved limit (a weak influence). However, for any investment amount that was over 150% of the pre-approved limit, they needed approval from the head office in the U.S. and they must also inform their regional office in Singapore (a strong influence). As a result, a weak/strong influence rating was indicated on figure 4.7 on the investment amount decision to indicate the extent of influence is depended upon the level of investment made. On other decisions, only normal reporting procedure was needed to inform the head office because these decisions were made according to local market situations and therefore all of them were awarded a weak influence rating.

On the analyses of the negotiation process and strategies of foreign firms, the author adopted the matching concept of Yin (1994) which in fact matching the actual negotiation process of a firm to the ideal negotiation process and strategies that were proposed in figure 3.6 of chapter 3. In evaluating the extent of matching of the “actual” to the “ideal”, the four level scale i.e. strong, moderate, weak, and nil was used which covered an entire spectrum of possibilities to test the validity of the proposed negotiation process and strategies in figure 3.6 of chapter 3. To qualify for a strong match, the “actual” must be 100% matched with the “ideal” which indicates an absolute academic vigour. To qualify for a moderate match, the extent of matching must be less than 100% but over 50%. The selection of the 50% benchmark can be understood if the readers equate this 50% to the mean in statistical analysis of any quantitative analysis. To qualify for a weak match, the extent of matching must be less than 50% but over 0%. A nil match of the “actual” to the “ideal” simply indicates the proposed negotiation process and strategies are wrong.

The adoption of a set of unified analytical tools is important to show consistency in analysing the cases in this study.
4.2 INTERNATIONAL BUSINESS MACHINES INC. (IBM)

"To enter the Chinese market, you need a consistent China Policy."

-Mr. Luis Rodrequez- Director of Greater China Manufacturing Group, IBM

4.2.1 Background

The computer industry in China started in 1962 by producing slow, limited DJS-1 and DJS-2 models. These models were limited in functional performance and were 10 years behind when compared to the then computer technology in the West. It made reasonable progress, however, when the solid state and the integrated circuits technologies were introduced to the Chinese market in mid-1960s and 1970 respectively. As a result, the domestic computer industry launched a 2 million operation per second (MOPS) machine in 1977, but that was still behind the early International Business Machines (IBM) 370 series.¹ Up until 1983, there were only 100 computer companies in the PRC which accounted for less than 0.1% of the country’s gross national product (GNP).²

The industry did not really pick up until 1985 when the Chinese leaders realised that computerisation of their massive central files in numerous industries was the key to modernisation. The then 5-year plan of the Chinese government initiated effort to upgrade its computer industry by importing significant amount of mainframe computers from the West in addition to the modernisation of the 400,000 factory.³ China soon became the world’s fastest growing computer market. The excitement in the booming factory market has simultaneously been transferred across to the personal market. In 1995, computer sales totalled US $7.4 billion, up 51% from 1994, and sales of personal computers rose 60% to 1.15 million units. By the year 2000, annual sales are expected to reach 6 million units.⁴

IBM responded to this favourable Chinese market environment by making inroad to the Chinese market in the early 1990s. The Manufacturing Greater China Group of IBM was established and was headquartered in Beijing, PRC with 2 other offices located in Hong Kong and Taiwan. The group presently has 8 joint ventures in China, i.e. four manufacturing, two software and two 2 network and maintenance services joint ventures. The manufacturing joint ventures are producing hi-tech components, personal computers, POS electronic equipment, banking terminals, printers, heads for the disk drive etc.

¹ The preparation of this case was based on an interview with Mr. Luis Rodrequez- Director of Manufacturing (Greater China Manufacturing Group), IBM and articles cited at the reference section of this case
IBM, being one of the most influential multi-national companies with operations in most of the countries on the global had an annual turnover of US$ 75.9 billion and employed 241,000 people at the end of 1996.

4.2.2 Within case analyses

The data provided by IBM suggest that their joint venture negotiation experience are highly compliant to the joint venture negotiation model in figures 3.5 and 3.6 in chapter 3. In the following section the six research questions listed at the beginning of this appendix will be investigated to give a general conclusion on IBM joint venture negotiation in China.

Environmental influence on joint venture negotiation

When asked about questions related to environmental influence on the negotiation process, the strategic context forces mentioned by Hunger and Wheelen (1993) are important considerations when they negotiated joint venture projects in China.

Economic Influence

As mentioned in the background section of this case, the computer market in China has been expanding at a phenomenal rate that has created a huge market potential. IBM, as an influential market leader, needed to participate in the Chinese market. As Mr. Rodriguez pointed out: "The main reason we set up joint ventures in China is because of market access... To do this, we attempted to establish significant market share in all major segments through joint venturing with local Chinese partners. In these ventures, we would like to have controlling interest."

A chronological record of their joint ventures can be found in figure 4.5 below. Five joint ventures are situated in the capital city of Beijing; two are in the Special Economic Zone of Shenzhen, and one in the major city of Tianjin. These cities have three major characteristics:

1. They are among the top ten cities which have the highest GNP growth;
2. They have the best computer professionals in China. Mr. Rodriguez admitted in an interview with South China Morning Post (12 th March 1991, p. B1): "the labour costs and the high level of academic and theoretical computing knowledge in China made it an ideal centre for software development."
3. They are highly competitive markets. For example, one of IBM major competitors, AST, built a factory just outside Beijing to produce PC for this highly competitive market.
In view of the above, IBM penetrate the market via access in these strategic cities because of their high economic growth, high computer education level, and intense competition. Also, the Chinese government has been providing a definitive economic environment to all foreign investors in management joint ventures. Mr. Rodriguez agreed: "the macro economic control had no effect on us. It only applied to the domestic Chinese firms!"

As mentioned in the environment section, the establishments of most of their joint ventures were strategic in nature; i.e. these joint ventures could enhance IBM’s infrastructure operations in China. Evidence also shows that IBM partner such as Ministry of Electronics can help improve IBM’s distribution channels in China and therefore improve IBM competitive position. For example, a report showed that IBM would surpass Compaq and AST to become the number one supplier in China."

**Figure 4.5** A chronological record of IBM ventures in China

<table>
<thead>
<tr>
<th>Contract signed</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>August 1990</td>
<td>Joint ventured with Tianjin Zhonghuan Computer Group which is a window company of Ministry of Electronic to establish Tianjin Advance Information Products Corporation Ltd. (TAIPC) in Tianjin to manufacture banking peripherals, POS terminals and PC. An initially 5 year co-operative JV but has been extended. IBM share: 50%.</td>
</tr>
<tr>
<td>Feb 1991</td>
<td>Joint ventured with Shenzhen University which is under the administration of State Education, Big Blue and Bank of East Asia to establish International Software Development Co. Ltd (ISDC) in Shenzhen to localised IBM standard products and to manufacture ISDC brand software products. An initially 5 year co-operative JV but has been extended. IBM share: 50%.</td>
</tr>
<tr>
<td>Mar 1994</td>
<td>Joint ventured with China Great Wall Computer Group which is a window company of Ministry of Electronics to establish International Information Products Company Ltd (IIPC) in Beijing to manufacture IBM and Great Wall brands of PC products. IBM share: 49%.</td>
</tr>
<tr>
<td>Approx. 1994-96</td>
<td>Joint ventured with Ji Tong Company which is a window company of Ministry of Electronics to establish The Blue Express Technical Service Company Ltd (BE) in Beijing to provide low end service support to local customers. IBM share: 50%.</td>
</tr>
<tr>
<td>1995</td>
<td>Joint ventured with a window company of Ministry of Railway to establish Bun Tong Information Network Research Development Co. Ltd (XunTong) in Beijing to provide network service to local customers. IBM share: 50%.</td>
</tr>
<tr>
<td>1996</td>
<td>Joint ventured with Tsinghua University which is under the administration of State Education to establish Advance System Development Co. Ltd (ASDC) to manufacture ASDC software products in Beijing. IBM share: 50%.</td>
</tr>
<tr>
<td>1996</td>
<td>Joint ventured with Kaifa Electronic Company which is a window company of Ministry of Electronics to establish GKI Electronics Co. Ltd (GKI) in Shenzhen to manufacture electronic cards and boards. IBM share: 50%.</td>
</tr>
<tr>
<td>Dec 1996</td>
<td>Joint ventured with a company in Beijing to manufacture disk drive for computer. IBM share: 80%.</td>
</tr>
</tbody>
</table>

In summary, the economic conditions in China represent strong levels of encouragement on IBM’s speed of negotiation in China. At macro level, the general growth in the Chinese computer market is a driving force. At micro level, the specific growth in individual market, the competitive activities
and the availability of high quality computer professionals became their strategic considerations in approaching individual Chinese market.

**Political/legal environment**

IBM has been approaching the Chinese market with a careful evaluation of its political development. For example, they did not establish any direct link with this market until 1985. In that year, two representative offices were in operation, one in Beijing and another one in Shanghai; i.e. 6 years after the open door policy was announced in Oct 1979. All IBM eight joint ventures were established after June 4 incidence 1989. Their first joint venture was established in 1990 after SAIC and China's Trademark office penalised 5 Chinese enterprises for infringing IBM Corp. registered trademark in China. However, IBM did not accelerate its speed to negotiate joint venture projects in China until late 1992 after Deng's South China trip to encourage foreign investment. In the period from 1994 to 1996, 6 joint ventures have been established. In other words, IBM has been awaiting a stable political environment with enough legal protection before they were fully committed to the Chinese market.

On the contrary, IBM is more flexible in other legal issues such as taxation and internal sales quota because these legal issues are generally applicable to all foreign investors including their competitors. In other words, IBM has been looking for a stable political system with fair legal practice before they considered negotiating a joint venture project in China.

In summary, the stable political environment has scored "strong encouragement" to IBM's development in China. However, the political/legal rating is downgraded to a "moderate encouragement" because IBM cannot have any legal preference in this political system.

**Technological Environment**

China has a moderate technological level that is at least equivalent to other developing countries which is important for IBM to negotiate their joint ventures in China because of their potential technological contribution to the Chinese economy. As Mr. Rodriguez admitted: "The quality of people (in China) is equal to that of India, the Philippines or Thailand." As such, IBM did not have any problem to employ experienced computer experts in the Chinese market.

To capture opportunities on technology contribution to the Chinese economy, IBM signed a Memorandum of Understanding with the Ministry of Electronics on the 3rd May 1995 to conclude that IBM's PowerPC platform will be one of the major microprocessor architecture of the future. The implication is that IBM technology is the preferred technology in the organisations controlled by the Ministry of Electronics. An IBM software development centre has been set up in Shanghai to enhance co-operation with their Chinese business partners. In 1995, IBM also established an
information technology centre and the China Research Laboratory to test and demonstrate IBM’s latest technological progress. With all these, IBM wanted to show to the government their commitment to the Chinese market. Therefore, technological environment should represent a "strong encouragement" level on IBM’s development in China. However, taking into consideration that the computer market is highly competitive in nature and new technological development may emerge quickly, IBM may not have an absolute advantage on their competitors. In fact, IBM has noted the instability of their absolute competitive advantage and has formed strategic alliances with Hitachi, Apple and Motorola in exploring computer technology in October 1991. But their competitors, Thomson-CSF, Harris Computer System, Bull, and TadPole Technology quickly responded by forming their alliance in developing similar technology. In terms of Porter’s (1985) competitive theory, IBM should be able to match competitors’ action because of their huge financial resources as the author identified at the background section of this case.

In summary, the technology environment represents a strong encouragement to IBM’s development in China. This strong encouragement rating is downgraded by to moderate encouragement when the competitive forces are taking into account because IBM is not in an absolute favourable technological environment.

The environmental influence on IBM’s joint venture negotiation in China can be found in figure 4.6.
**Figure 4.6 Environmental influence on IBM joint venture negotiation in China**

<table>
<thead>
<tr>
<th>Economic environment</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>strong encouragement</em></td>
</tr>
<tr>
<td>• Huge economic growth in general encouraged IBM to negotiate joint venture projects in China.</td>
</tr>
<tr>
<td>• High growth in major cities and competitors’ activities in these cities directed their geographical selection.</td>
</tr>
<tr>
<td>• Rich human resources enable IBM to operate effectively in China</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Political/legal environment</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>moderate encouragement</em></td>
</tr>
<tr>
<td>• Stable political environment has very positive influence on IBM’s development in China.</td>
</tr>
<tr>
<td>• IBM did not have any preferential treatment within the PRC legal system.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technological environment</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>moderate encouragement</em></td>
</tr>
<tr>
<td>• Co-operation with the Ministry of Electronics (MOE) enabled IBM to have possibility to dominate MOE controlled organisations.</td>
</tr>
<tr>
<td>• Establishment of a software development centre in Shanghai to enhance co-operation with Chinese business partners.</td>
</tr>
<tr>
<td>• Establishment of an information technology centre and a China Research Laboratory to demonstrate their commitment to the Chinese market.</td>
</tr>
<tr>
<td>• Availability of computer experts in the Chinese market was encouraging.</td>
</tr>
<tr>
<td>• Intense competition reduced IBM’s possibility to dominate the computer industry in terms of technology</td>
</tr>
</tbody>
</table>

**Organisational constraints**

IBM’s head office in U.S.A. has been totally bureaucratic in making decision in transfer of technology whereas the decisions to transfer IBM’s Logo and their intellectual Property Right and Licensing have been landed on the shoulder of their Regional Head Office in Singapore. They have been very autonomous in making other decisions that are listed in figure 4.7 including the investment amount provided that the final investment amount does not exceed 50% of the pre-approved value. Therefore, the influence coming from the corporate head office was weak if the investment amount was within the approval limit or the influence would be very strong if it was over the approval limit.
**Figure 4.7  Extend of influence from Corporate Head Office and Regional Head Office**

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>Extend of influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment amount</td>
<td>Corporate Head Office/Regional Head Office weak/strong influence</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>weak influence</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>weak influence</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>weak influence</td>
</tr>
<tr>
<td>Board representation</td>
<td>weak influence</td>
</tr>
<tr>
<td>Expatriates’ expenses</td>
<td>no influence</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no influence</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>Strong influence</td>
</tr>
<tr>
<td>Transfer of IBM logo</td>
<td>Strong influence</td>
</tr>
<tr>
<td>Transfer of intellectual Property Right and licensing</td>
<td>Strong influence</td>
</tr>
</tbody>
</table>

Figure 4.7 shows that the Corporate and Regional Head Offices have exerted minimal influence on the operational decisions made by the negotiation team of IBM Greater China Manufacturing Group besides the last three items i.e. transfer of IBM’s technology, logo, intellectual property right and license. This decision making pattern is logical if the IBM Greater China Manufacturing Group is classified as a Strategic Business Unit or SBU. In fact, IBM Greater China Manufacturing Group can be classified because it was established to manage the Greater China market which includes PRC, Taiwan and Hong Kong as the author identified in the introduction section of this case. In addition, the moderate ratings in the political/legal and the technology environments in the last section also implied there were some risk involved when IBM approached the Chinese market. Therefore, the exercise of minimal control of IBM’s head office on Greater China Manufacturing Group’s in making operational decisions for the Chinese market as identified in figure 4.7 does not mean that there is no risk involved from the head office point of view. Rather, the risk involved in making these decisions must be essentially the responsibility of the Greater China Group themselves in negotiating a joint venture project in China. How IBM’s negotiators alleviate the risk factors in their venture in China when enter into joint venture negotiation is presented in next section.

In summary, IBM China Ltd. was classified as a strategic business unit because they have freedom to make a lot of decisions on their joint venture negotiation with their Chinese counterparts. For example, IBM corporate head office in the U.S. and their regional head office in Singapore have not strongly influenced IBM joint venture negotiation in China except on the items of technology transfer, transfer of IBM logo and transfer of intellectual property right. The corporate and regional head offices have only exerted weak influence on other decisions i.e. investment amount, dividends arrangement, plant specifications, and board representation. They have not involved in decisions such as expatriates’ expenses and labour allowances.
Joint venture negotiation strategies and process

Figure 4.8  IBM joint venture negotiation in China- a comparison

<table>
<thead>
<tr>
<th>Ideal Pre-negotiation stage</th>
<th>IBM Pre-negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organisation Objectives</strong></td>
<td><strong>Organisation Objectives</strong></td>
</tr>
<tr>
<td>• Identification of PRC bureaucratic structure</td>
<td>• Identification of PRC bureaucratic structure</td>
</tr>
<tr>
<td>• Identification of common marketing and financial goals</td>
<td>• Identification of common marketing and financial goals</td>
</tr>
<tr>
<td><strong>Personal Objective</strong></td>
<td><strong>Personal Objective</strong></td>
</tr>
<tr>
<td>• Identification of PRC negotiators’ goals</td>
<td>• Identification of PRC negotiators’ goals</td>
</tr>
<tr>
<td><strong>Etiquette</strong></td>
<td><strong>Etiquette</strong></td>
</tr>
<tr>
<td>• Eating and drinking</td>
<td>• attend informal meeting</td>
</tr>
</tbody>
</table>

Degree of matching: Strong

<table>
<thead>
<tr>
<th>Negotiation stage</th>
<th>Negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• collaborating</td>
<td></td>
</tr>
<tr>
<td>• compromising</td>
<td></td>
</tr>
<tr>
<td>• perceptions on PRC negotiators’ strategies and respond</td>
<td></td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
<tr>
<td>• USP</td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• collaborating</td>
<td></td>
</tr>
<tr>
<td>• compromising</td>
<td></td>
</tr>
<tr>
<td>• perceptions on PRC negotiators’ strategies and respond</td>
<td></td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
<tr>
<td>• USP</td>
<td></td>
</tr>
<tr>
<td>• clarifying important issues</td>
<td></td>
</tr>
</tbody>
</table>

Degree of matching: Strong

<table>
<thead>
<tr>
<th>Post negotiation stage</th>
<th>Post negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• closely monitor Chinese economic development</td>
<td></td>
</tr>
<tr>
<td>• closely follow own company policies when changing terms</td>
<td></td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• closely follow own company policies when changing terms</td>
<td></td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
</tbody>
</table>

Degree of matching: Moderate

<table>
<thead>
<tr>
<th>Contract signing stage</th>
<th>Contract signing stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• closely follow own company’s objectives</td>
<td></td>
</tr>
<tr>
<td>• closely monitor Chinese economic &amp; political environment</td>
<td></td>
</tr>
<tr>
<td>• thoroughly check contract terms against company policies</td>
<td></td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• closely follow own company’s objectives</td>
<td></td>
</tr>
<tr>
<td>• thoroughly check contract terms against company policies</td>
<td></td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
</tbody>
</table>

Degree of matching: Moderate

<table>
<thead>
<tr>
<th>Post-contract signing stage</th>
<th>Post-contract signing stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• closely monitor PRC economic development and reflect on the contract</td>
<td></td>
</tr>
<tr>
<td>• high level negotiation</td>
<td></td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
</tr>
<tr>
<td>• communicate with PRC government department to obtain implementation licence</td>
<td></td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
</tbody>
</table>

Degree of matching: weak
The ideal joint venture negotiation process and strategies in figure 3.6 and those of IBM are matched in figure 4.8 above. There is a strong matching pattern at the pre-negotiation and the negotiation stages. In the pre-negotiation stage, the only difference is the format of handling etiquette in China. Besides meeting their Chinese counterparts in restaurants, IBM’s staff also met them in some other occasions i.e. golf course. In the negotiation stage, IBM staffs needed to clarify some important issues before they could proceed to the next run of formal negotiation talk. Mr. Rodrequez provided an explanation: “One of the most difficult things to handle when negotiating with them is that they don’t want to give direct answers to some issues. My staffs, in many of these occasions, use probing and questioning techniques to clarify their positions! Sometimes, they need to clarify these issues when they having dinners with them! If they cannot solve the problems, I will participate in the negotiation!”

The pattern of IBM’s joint venture negotiation in China is essentially the same as the ideal pattern except that monitoring the Chinese economic/political conditions seems to be missing in the post negotiation and the contract signing stage and higher level negotiation is missing in the post contract signing stage. Because at least two third of IBM’s elements presented in these three stages match with those of the ideal, a moderate rating is assigned. The absence of IBM’s monitoring on the economic/political situations is not a rational attitude of a global marketer like IBM. In fact, international marketing scholar always advocates the importance of the analytical process in monitoring the economic and political situations in entering a country in the global market. However, there is evidence to show that IBM neglected the economic and political problems and their implications to their negotiation assignments in China but they awaited their Chinese counterparts to raise the problems because IBM considered they were domestic problems. In this way, they may ‘do a favour’ to their Chinese counterparts. As Mr. Rodrequez said: “we will listen to their request in changing terms and respond if we think that is reasonable… We won’t give anything away free and we try to take something back. Everything is negotiable in China!” In saying that, IBM adjusted the terms according to the pre-determined strategies/objectives.

Surprisingly, IBM has not gone through higher level negotiation on the contract terms after it has been signed and therefore a weak rating is assigned in the post-contract signing stage. It implies that their Chinese counterparts had never re-negotiated the contract terms at this stage. A potential reason is that IBM spent extreme effort in the previous stages in clarifying issues and agreeing term’s modification before the contract was signed. Therefore, both parties were fully satisfy and understand the terms of the contract and changing them after signing was not necessary!

The analyses in this section show that IBM has been approaching the Chinese market in a prudent stage-wise process. As indicated on figure 4.8, IBM progressed very slowly in going through every individual stage. The resolution of differences required numerous interactions and effort between
IBM and their Chinese counterparts. But the effort paid off when mutual understanding was established and terms on the contract remained unchanged after it had been signed.

This section discussed the strategies and process of the joint venture negotiation. Next section is to discuss the supportive elements in the negotiation process.

**Joint venture negotiation pillar**

According to figure 3.5 in chapter 3, joint venture negotiation pillar is consisted of two components:

Figure 4.9  **Cultural influence on IBM joint venture negotiation in China**

<table>
<thead>
<tr>
<th>Cultural components</th>
<th>Predicated Guanxi influence on joint venture negotiation process: strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of guanxi influence: strong</td>
<td></td>
</tr>
<tr>
<td>• IBM has established good guanxi with various ministries i.e. the ministry of Electronics and the Ministry of Railway.</td>
<td></td>
</tr>
<tr>
<td>• IBM have built up good guanxi base with local government i.e. they have never openly criticised the Chinese government.</td>
<td></td>
</tr>
<tr>
<td>• IBM have consolidated their guanxi with the State Education Commission through donations i.e. donated PC to the local universities.</td>
<td></td>
</tr>
<tr>
<td>• IBM has very good guanxi with local community.</td>
<td></td>
</tr>
<tr>
<td>• Inter-company visits were important activities.</td>
<td></td>
</tr>
<tr>
<td>• Long-term relationship was emphasised in these visits.</td>
<td></td>
</tr>
</tbody>
</table>

| Predicated face influence on joint venture negotiation process: strong |
| Evidence of face influence: strong |                       |
| • IBM presented gifts to enhance the Mianzi of their PRC counterparts in appropriate occasions e.g. banquets. |                       |
| • IBM never confronted their Chinese counterparts concerning any issues but attempted to solve them in some private meetings. |                       |
| • IBM openly advocated that their establishment of Tainjin Advanced Information Products Corporation (TAIP) was not conditional on the introduction of a copyright law in China. |                       |

| Predicated Reciprocity influence on the joint venture negotiation process: strong |
| Evidence of reciprocity influence: strong |                       |
| • IBM established a software joint venture The International Software Development Corporation (ISDC) to train local personnel. |                       |
| • IBM increased their procurement activities in China to establish good impression to the central government i.e. procured US$ 30 million raw materials in 1990, an increase of 500% over the preceding year. |                       |

| Predicated Renqing influence on the joint venture negotiation process: strong |
| Evidence of Renqing influence: weak |                       |
| • IBM presented computers as gifts to local schools and hotels that did not have direct business relationships with them. These actions of doing favour produced harmonised relationships with the local community. |                       |

| Predicated Trust influence on the joint venture negotiation process: strong |
| Evidence of Trust influence: strong |                       |
| • IBM have already finished their re-negotiation for their 5 year co-operative joint venture contracts of Tainjin Advance Information Products Corporation Ltd. (TAIPC) and International Software Development (ISDC). These actions indicated that they have built up trust with their JV partners. |                       |
| • IBM has established four joint ventures with companies under the Ministry of Electronics have indicated they have trust on one another. |                       |
| • IBM’s establishment of two Joint ventures with local universities under the administration of State Education indicated the level of trust between them. |                       |
1. the mutual adaptation of unique Chinese cultural elements by the foreign and the Chinese parties 
e.g. guanxi, face, reciprocity, renqing and trust by the foreign and the Chinese parties;
2. The foreign party's Problem Solving Attitude (PSA) in the joint venture negotiation project.

The evidence of these components' operations was revealed in the case study body. This section is to 
reveal their level of influence in the joint venture negotiation process. The model in figure 3.5 and 
3.6 of chapter 3 predicted that these components have strong influence throughout the joint venture 
negotiation process. In fact, IBM put a lot of effort in handling these cultural elements as shown in 
figure 4.9. All the cultural elements deserve a strong influence rating except the renqing element that 
obtains a weak influence rating. To qualify for a particular rating on a cultural element, the evidence 
associated with that element must satisfy two criteria: 1) the quantitative aspect or the number of 
evidence associated with that evidence and 2) the qualitative aspect or the 'weighting' associated with 
each evidence. For example, there are three types of evidence associated with the Guanxi cultural 
element. These types of evidence were highly weighted because good Guanxi is difficult to obtain 
with ministries. Therefore, a composite indicator of strong influence is given to the guanxi cultural 
element. However, readers should note that either a very high quantitative or qualitative aspect 
associated with a particular cultural element alone could justify a strong influence rating. For 
example, the two types of evidence associated with the reciprocity element are 'weaker' in term of 
quantitative number when compared to the Guanxi element. However, these two types of evidence 
are heavily weighted in term of IBM's internal resources. In saying that, setting up a training centre 
in China called for extensive use of IBM internal resources. Likewise, procurement is a very 
important strategic decision and IBM procured US$ 30 million locally in 1990. In terms of Porter's 
competitive theory, procurement is a very important strategic decision!viii As a result, a strong 
influence rating is awarded to IBM on the reciprocity element. Based on this logic, a weak influence 
rating is awarded to the Renqing element. The number of evidence ratings is less than the other 
cultural elements. Also, the qualitative aspect or its weighting is low because it did not have an 
immediate effect on IBM's operation in China.

In summary, all the five Chinese cultural elements have a strong influence throughout the joint 
venture negotiation process.

Figure 4.10 below shows the evidence of IBM Problem Solving Attitude in negotiating with their 
joint venture partners. The information collection and the information exchange are perceived to have 
a strong influence on IBM negotiation process with their Chinese partners because they allowed IBM 
to carefully match their expectations with the PRC's requirements. As Mr. Rodriguez admitted: "we 
carefully match our internal resources with their needs to produce a win/win situation."
IBM Problem Solving Attitude (PSA) in Chinese joint venture negotiation

Predicted level of information collection influence on joint venture negotiation: strong
Evidence of information collection influence: strong
- IBM searched for potential projects from the Chinese government priority list which were subsequently validated by their guanxi members.
- Potential parties which were recommended by various ministries were studied and information concerning about their background were collected.
- IBM visited their potential production plants to obtain on-site information.
- IBM used outside consultant to conduct due diligence assignment upon analysing the information given by their PRC counterparts.

Predicted level of information exchange influence on joint venture negotiation: strong
Evidence of information exchange influence: strong
- IBM mainly gave public information and their expectation to their Chinese counterparts.
- Through careful matching and information exchange, IBM could rightly search for a partner for a joint venture project.

IBM negotiators spent huge effort to collect information regarding the Chinese environmental influences and their joint venture partners. They also exchanged information with their Chinese counterparts and utilised the information to match their resources with the Chinese firms’ expectation. In summary, IBM’s negotiators equipped themselves with a problem-solving attitude (PSA).

Joint venture outcome

When asked about the joint venture outcomes, Mr. Rodriquez was satisfied with the profit, market penetration, credibility and reputation, future investment intention and learning experience in their joint venture projects in China. The satisfactory outcomes are briefly discussed below.

According to IBM’s JV chronological record in figure 4.5, IBM has been approaching the Chinese very cautiously and aggressively. They were cautious because they did not participate in this market directly until 1990, one year after June 4. Because they joined this market rather late, they have to adopt a faster but flexible way of going into the market. Firstly, their contract length of the first two joint ventures were only 5 years which were much shorter than the norm i.e. 15 to 25 years as for a co-operative joint venture contract.\textsuperscript{iii} Because of this shorter contract terms arrangement, they could receive a higher percentage of dividends based on pre-tax earnings. These arrangements allowed IBM to recover their investment in the shortest possible time and gave them opportunity to accumulate business experience in China. Their recent extension of the two oldest joint ventures in China indicated that the profit level for their investments in China is satisfactory. If other factors such competitive situation remain unchanged, IBM profit satisfaction level is high.

As discussed in previous sections, IBM has penetrated different segments of the Chinese computer market. Their joint ventures manufacture personal computers and its components, other related computer product like banking terminals, software system. The whole penetration strategy allows
IBM to penetrate the computer user market, the business market and the computer services market. To secure their distribution channel, IBM also signed a Memorandum of Understanding with the Ministry of Electronics to use IBM technology platform in all MOE controlled organisations. In summary, their penetration has a wide coverage and their satisfaction is high. For example, IBM has overtaken Compaq in 1997 and the top PC supplier in the mainland.\textsuperscript{xix}

IBM cultural management skill also allows them to establish credibility and reputation as a good marketer as well as a good corporate citizen in China. They have established good \textit{guanxi} with the local community and the commercial sector. Therefore, they are \textit{highly} satisfied with this dimension.

The future investment intention for IBM in China is extremely positive. As their Vice President of IBM’s global services operation Mr. Denne M Welsh said: “IBM has a unique plan for China, the world’s largest and most rapidly developing market!” Their newest joint venture in Beijing also commands an 80% interest indicating their determination in the Chinese market. Also, Mr. Rodriguez mentioned that “they like to have more controlling interest in all their joint venture projects and wholly owned company is highly possible in China.” All this evidence indicated that their intention to invest in China is increasing from initially 50% controlled to 80% controlled and eventually 100% controlled wholly owned subsidiary. Therefore, this dimension must be rated as \textit{highly} satisfactory.

Concerning learning experience, Mr. Rodriguez mentioned: “To enter the Chinese market, you need a consistent China Policy!” IBM has been consistent in establishing JV projects that are supportive to their main business e.g. computing. They have been putting in resources to manage the unique cultural elements through donation to different market segments of the computer market. In addition, patience is very important in the Chinese market. IBM learning experience must be rated as \textit{highly} satisfactory!

On the contrary, Mr. Rodriguez had slightly different opinion on the management and product management experience in China. As Mr. Rodriguez mentioned: “we like to see more local personnel to take up management positions in all our joint venture projects in China. Local managers understand local market situations and its culture which substantially improve the efficiency of our company and also reduce cost of keeping expatriate in China...keeping an expatriate there is expensive... It is not difficult to employ software and hardware experts in China. But it is hard to find managers who could communicate effectively in modern management concept!” Also, he admitted in another interview with South China Morning Post: “the concepts of customers services, quality control, training, flat management, rewards based on performance and, in fact, the whole modern business culture, are largely foreign to most Chinese firms!” In summary, IBM have a very pleasant management experience in the technical aspect of the business but they have been spending much
effort in establishing the whole modern management system in their joint ventures in China. This evidence initiates this dimension to have a moderate satisfaction level.

In regard to the product-sourcing dimension, domestic product sourcing in China can impress the central government, which earns big corporate citizen point. However, the inconsistent product supply has been a problem to IBM production in China. In solving this problem, IBM’s department for purchase in Asia Pacific has recently announced the setting up of an office in Shanghai, a move that will raise the quality of local products. The evidence indicates that IBM’s sourcing activity impacts positively on IBM’s image in China, but also have a negative impact on the product quality. Therefore, this dimension is rated as moderate satisfactory.

**Figure 4.11  Satisfaction of joint venture outcome in China**

<table>
<thead>
<tr>
<th>Profit satisfaction level: high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Flexible co-operative JV terms allowed IBM to quickly recover their investment in China.</td>
</tr>
<tr>
<td>Accumulative in China business experience enables IBM to earn satisfactory result.</td>
</tr>
<tr>
<td>The extension of contract terms in two of their joint ventures indicated that their operation profit is satisfactory.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Market penetration satisfaction level: high</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM’s excellent guaranty with the Ministry of Electronics (MOE) help develop distribution channel for IBM.</td>
</tr>
<tr>
<td>The signing of Memorandum of Understanding with MOE to use IBM technology platform in all MOE organisations enable IBM to penetrate the market effectively.</td>
</tr>
<tr>
<td>The establishments of various software joint ventures enable IBM to train local technicians to work on IBM technology platform. These IBM trained technicians will certainly help disseminate IBM products and services in the future.</td>
</tr>
<tr>
<td>Local manufacturing of IBM PC can help reduce competition and cost and effect better penetration.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Management experience satisfaction level: moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management of middle level local computer professional is pleasant because of their reasonable quality that is at least equal to that of Thailand and India.</td>
</tr>
<tr>
<td>It is difficult to find senior management personnel in China who has modern management concepts.</td>
</tr>
<tr>
<td>It is expensive to keep senior foreign expatriates in China.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Product sourcing satisfaction level: moderate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic sourcing impressed central government on IBM’s commitment to exist in China as a local rather than foreign company.</td>
</tr>
<tr>
<td>Domestic sourcing enabled IBM to reduce cost.</td>
</tr>
<tr>
<td>Inconsistent product quality supplies have considerable impact on their operations in China.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Credibility and reputation satisfaction level: high</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM has established excellent guaranty with local customers.</td>
</tr>
<tr>
<td>High profile donations to various commercial sectors enable IBM to establish corporate identity.</td>
</tr>
<tr>
<td>Effective penetration into different segments of the market enabled IBM to bypass AST to become number computer supplier in China in 1995.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Future investment intention satisfaction level: high</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM perceived that China will become the largest market with fastest growth and surely will look for future investment opportunity.</td>
</tr>
<tr>
<td>Increase their controlling interest in their newest joint venture in Beijing that indicates the determination in the Chinese market.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Learning experience satisfaction level: high</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cultural elements must be carefully managed.</td>
</tr>
<tr>
<td>Patience is important in China.</td>
</tr>
<tr>
<td>A consistent China policy must be adopted to penetrate the Chinese market.</td>
</tr>
</tbody>
</table>
In summary, IBM rated a high satisfaction level in regard to profit, market penetration, credibility and reputation, future investment intention, and learning experience in the PRC market. However, they rated only a moderate satisfaction on the product sourcing and management experience dimensions.

4.2.3 Conclusion

There is strong evidence to show that IBM joint venture negotiation in China follows the process proposed on figures 3.5 and 3.6 that will be summarised below.

Environment

As discussed, the economic conditions in China rated "strong encouragement" on IBM’s speed of negotiation in China. At macro level, the general growth in the Chinese computer market is a driving force. At micro level, the specific growth in individual market, the competitive activities and the availability of high quality computer professionals became their strategic considerations in approaching individual Chinese market.

The political/legal environment rated a "moderate encouragement" on IBM joint venture negotiation in China. In saying that, the stable political environment alone culminated in a strong encouragement to IBM’s development in China. However, the political/legal rating is downgraded to a moderate encouragement because IBM cannot have any legal preference in this political system.

Likewise, the technology environment ranked as strong encouragement to IBM’s development in China. This strong encouragement rating, however, is downgraded to moderate encouragement when the competitive forces are taking into account because IBM is not in an absolute favourable technological environment

Organisational constraints

IBM China Ltd. was classified as a strategic business unit because they have freedom to make a lot of decisions on their joint venture negotiation with their Chinese counterparts. For example, IBM corporate head office in the U.S. and their regional head office in Singapore have not strongly influenced IBM joint venture negotiation in China except on the items of technology transfer, transfer of IBM logo and transfer of intellectual property right. The corporate and regional head offices have only exerted weak influence on other decisions i.e. investment amount, dividends arrangement, plant specifications, and board representation. They have not involved in decisions such as expatriates’ expenses and labour allowances.
Joint venture negotiation strategies and process

The analyses in this section show that IBM has been approaching the Chinese market in a prudent stage-wise process. As indicated on figure 4.8 IBM progressed very slowly in going through every individual stage. The resolution of differences required numerous interactions and effort between IBM and their Chinese counterparts. But effort paid off when mutual understanding was established and terms on the contract remained unchanged after it had been signed.

Joint venture negotiation pillar

All the five Chinese cultural elements have a strong influence throughout the joint venture negotiation process. On the contrary, IBM negotiators spent huge effort to collect information regarding the Chinese environmental influences and their joint venture partners. They also exchanged information with their Chinese counterparts and utilised the information to match their resources with the Chinese firms' expectation. In summary, IBM's negotiators equipped themselves with a problem-solving attitude (PSA).

Joint venture outcome

In summary, IBM rated a high satisfaction level in terms of profit, market penetration, credibility and reputation, future investment intention, and learning experience in the PRC market. However, they only had a moderate satisfaction on the product sourcing and management experience dimensions.

The IBM case was a "whole" study on the joint venture negotiation model from a foreign perspective in a sense that it demonstrated the importance of the environment influences on IBM's joint venture negotiation in China. The corporate and the regional head office perception on the Chinese market potential also determine their business mode of operation, which exerts different level of influence on the negotiators. The importance of the joint venture negotiation pillar functioned throughout the negotiation process that consists of the unique cultural elements and the problem-solving attitude was also demonstrated.

The whole case illustrated that a cross-cultural joint venture negotiation in a Chinese context must be approached in a holistic nature. The company must evaluate the environmental context in a specific country i.e. China. The specific environment and management perception on that market determines the influence that the corporate head office exerts on their negotiators. The negotiators must appreciate the unique culture and process with problem-solving attitude (PSA) when negotiating with their counterparts throughout the negotiation process. In the case of China, it is a five-stage model that is determined by its bureaucratic legal system. The case also demonstrated that successful joint venture negotiation does not necessary mean that a foreign firm will be highly satisfied with the
result. For example, IBM is only moderately satisfied with the product sourcing and management experience. That may be due to IBM’s inability of perceiving some future management problem at the implementation stage of the joint venture project.

In summary, the IBM joint venture negotiation process in China is identical to the model proposed in figure 3.5 and 3.6 in chapter 3. This preliminary conclusion indicates the need to replicate the result of the IBM in order to prove the applicability of the Sino-foreign joint venture negotiation model.

4.3 OTIS ELEVATOR INTERNATIONAL, INC.

"*Guanxi* is not about corruption. It is a relational concept in which *guanxi* members mutually contribute their effect to maintain their relationship." -Mr Vincent Kwan, Vice president of Business Development, Otis Elevator International, Inc. \(^2\)

4.3.1 Background

OTIS is a subsidiary of United Technologies Corporation (UTC) of the United States. Its total group sales was US$ 23 billion at the end of 1995.

Otis is a market leader and shares 24% of the world market with an annual sales of US$ 4.6 billion. It employed over 50,000 people in 1,700 locations world-wide at the end of 1996. It markets, manufactures and installs over 33,000 elevators and escalators annually, and its mechanics and agent representatives maintain in excess of 700,000 elevators and escalators in virtually every country of the world.\(^{xxii}\) The have a total of 24 manufacturing facilities in 15 country.\(^{xxiii}\) Their business scope is to move people from one place to another with products include elevators, escalators, moving sidewalks and shuttle systems.

Otis history can be traced back to 1853 when they invented the first elevator. In 1900, they also pioneered the first escalator. In 1921, they introduced the first contract maintenance system to the service market that has been well received. Otis’ success in the domestic market naturally encouraged them to participate in the global market place. Today, Otis generates 80% of their revenue outside the States and they control their global businesses via their three regional head quarters 1) North America Operations (NAO) based in Farmington, Connecticut 2) European and Transcontinental Operations (ETO) based in Paris, France and 3) Pacific Asia Operations (PAO) based in Singapore. The China

\(^2\) The preparation of this case was based on an interview with Mr. Vincent Kwan- Vice President of Business Development, Otis Elevator International (PAO), Inc and articles cited at the reference section of this case.
market has been supervised through their Singapore office until Otis China Ltd was established on 9 th September 1997 to solely manage the Chinese market. The PAO region sells more than 14,000 and services 90,000 elevators and escalators in this region annually.

Otis had operated in China, based in Shanghai with a well established sales and service operation, before the founding of the People’s Republic of China in 1949. In 1979, as China once again opened its door to foreign investment, Otis was among the pioneers to re-establish operations there\textsuperscript{xxv}.

Up until 1997, Otis has established four manufacturing joint ventures in Tianjian, Beijing, Shanghai, and Guangzhou and shares 25% of the Chinese market.\textsuperscript{xxvi} They also have over 100 sales offices to distribute their products in the country. Otis China Ltd. in Tianjin is now overseeing the operations of these four joint ventures\textsuperscript{xxvii} and these sales offices that have total investment of US$ 110 million. They have received orders for over 5,000 elevators and escalators in 1996 from the Chinese market. All five joint ventures and sales operations employ approximately 5,000 people.

4.3.2 Within case analyses

The data provided by Otis suggest that their joint venture negotiation experience is highly compliant to the joint venture negotiation model in figures 3.5 and 3.6 in chapter 3. In the following section the eight research questions listed at the beginning of this chapter will be investigated to give a general conclusion on Otis joint venture negotiation in China.

\textit{Economic Influence}

Otis’ initial development has been heavily influenced by the Chinese government master plan presented in the Seventh Five-Year Plan (from 1985 to 1990) which specified the need for modernisation of their four special economic zones (SEZ), 14 coastal cities, and various harbours along the Yangtze River and Hainan Island. This modernisation drive has been linked up to development of residential and commercial buildings.

The Chinese government policy was to increase the living space on a per capita basis from a floor area of 4.6 square meter to at least 8 square meter for every Chinese residents by the end of year 2000. The government has also changed the contract management system in building services from a close tender to an open tender system to encourage contractors to provide better and more efficient services to the Chinese communities. Almost 4,000 contracts were awarded to contractors up to 1985.\textsuperscript{xxviii}

The construction market has been booming. For example, the Guangdong government announced in the eighth 5 year plan to invest US$ 7.2 billion on expanding the living space of a resident from 4
square meter to 11 square meter (1991 to 1995). The Construction Minister Lin Hanxiong also indicated that several Housing Reform measures had been confirmed in 1990. Official statistics showed that 19 cities, plus 30 townships, had worked out their complete housing reform programs, while 28 out of China’s 30 provinces, municipalities and autonomous regions had embarked on pilot plans to advance housing reform in the same year.\textsuperscript{xxx} As a result, China investment in fixed assets was increased by 30% in 1993. Foreign residents moving into the major cities of China has been another important factor that put tremendous pressure on residential property development.\textsuperscript{xxx} In addition to these developments, the Chinese Ministry of Development also announced that 14,000 new towns were to be formed by 1995, and 50 larger cities would be built.\textsuperscript{xxxi} This factual information put tremendous encouragement on Otis to increase their presence by providing better quality products and services to the Chinese market. Their Senior Vice President of Pacific Asia Operations (PAO) Mr. P.L. Foschi openly admitted: “As a result of the rapid economic development, more and more buildings, both high-rise commercial and residential, have been and will be built in China. The demand for elevators, escalators and moving walkways are bound to increase.”\textsuperscript{xxxi} Mr. Kwan is even more optimistic than Mr. Foschi: “In about 20 years, China will become one-third of the world market and at that time, China will become the largest market in the world!”

As a result of these developments in China, Otis has established five joint ventures in China including the latest establishment of Otis China Ltd. to solely overseeing the Chinese market. Four of these joint ventures have been established in a five-year period ending 1997. All joint ventures are located in important cities spreading from Northern to Southern parts of China. These cities have been strategic in nature in attracting foreign direct investment (FDI) and have remarkable growth in the modernisation drive. For example, Shanghai has been the rewarding site of a number of large Otis contracts including a US$ 16.5 million for 120 escalators for the Metro line 2 project in 1996.\textsuperscript{xxviii} The details of their joint ventures can be found in figure 4.12.

At a micro level, Otis increasing presence in this market has been attributed by the intense competition. For example, their biggest competitor, Schindler of Switzerland has been exerting pressure on their marketing activities. It is also noted that in their recent winning of the US$ 10 million contract in Shanghai, Otis was facing severe competition from Mitsubishi, Toshiba and Schindler.\textsuperscript{xxiv}
**Figure 4.12  A chronological record of Otis joint ventures in China**

<table>
<thead>
<tr>
<th>Operation date</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1984</td>
<td>Joint ventured with Tianjin Elevator Co. to form Otis Tianjin Elevator Co. Ltd. A <em>manufacturing</em> joint venture which was capitalised at US$ 5 million with Otis having 30% and Tianjin 65%. China International Trust and Investment Corporation (CITIC) was the matchmaker and held the remaining 5%.</td>
</tr>
<tr>
<td>1992</td>
<td>Joint ventured with Beijing Equipment Installation Engineering Company to form Beijing Otis Elevator Company. This <em>service</em> joint venture sells, installs, services and modernises elevators and escalators in the Beijing region. It has offices and technical centres in Beijing.</td>
</tr>
<tr>
<td>1993</td>
<td>Joint ventured with Shanghai SITICO Enterprises Company Ltd. to form Shanghai Otis Elevator Ltd. This <em>service</em> joint venture sells, installs, services and modernises elevators and escalators in the Shanghai region. It has four offices and Technical centres in Shanghai.</td>
</tr>
<tr>
<td>1995</td>
<td>Joint ventured with Guangzhou Nanfang Elevator Co. to form Otis Guangzhou Elevator Ltd. A <em>manufacturing</em> joint venture which was capitalised at US$ 30 million with Otis having majority share.</td>
</tr>
<tr>
<td>1997</td>
<td>Joint ventured with CITIC, Tianjin Tai Kang Industrial &amp; Commercial Company to form Otis China Co. Ltd. in Tianjin. It is the <em>holding</em> company of the above four ventures in China.</td>
</tr>
</tbody>
</table>

In summary, the economic conditions in China show strong encouragement on Otis negotiation in China. At macro level, the general growth in the Chinese construction and property market is a dominant driving force. At micro level, the specific growth in individual markets and the competitive activities become their strategic considerations in approaching individual Chinese market.

**Political/legal environment**

Otis has been penetrating the Chinese market with a careful evaluation of its political development in conjunction with other factors i.e. the provision of preferential tax arrangement by the government in 1984. This preferential tax arrangement coincided with the timing of their first established manufacturing joint venture in Tianjin in 1984. However, it was not until 1992 that they established their second joint venture in Beijing right after Deng’s South China trip to encourage foreign investment. In the period from 1992 to 1997, 4 joint ventures have been set up. In summary, Otis has been waiting for a stable political environment with enough legal protection before they were fully committed to the Chinese market.

On the other hand, evidence indicates that China has been lacking planning activities with good quality and qualified urban planners in their project development. Commentators emphasised the need of quality advice to the decision-makers before the over planning policies were running out of
The commentators’ anxiety has merit because of the confusion in the Chinese government planning policies. In China, the State Council determines the overall urban planning policy. The urban development according to this policy, in turn, is implemented by three commissions: 1) the Planning Commission (PC), 2) the Economic Commission (EC) and 3) the Construction Commission (CC). The PC is to frame overall economic goals and resources allocation and the EC is to co-ordinate economic development in different sectors of the economy whereas the CC is to co-ordinate physical planning, design and construction at national level. At municipal level, urban policy is devised and implemented by city government led by the mayor. The Municipal Construction Commission co-ordinates physical development and is the link with Construction Commissions at higher levels provincial government for most cities. The urban planning activities have been confusing and are bound to have problems because of the tremendous overlapping functions among various government departments. However, there are some exceptions. For example, the State Construction Commission supervises the planning activities in strategic cities such as Beijing, Shanghai and Tianjin.

The lack of qualified urban planners adds confusion to the problem of planning co-ordination. Most of the planners were engineers or architects who were trained in the Soviet Union in the 1950’s. These planners were sent to farms and worked during Cultural Revolution that naturally brought the planning activities to a halt for ten years. The jobs of these planners were reinstated in the 1980’s but their planning activities remained a central function. Nevertheless, these urban planning activities are more professional with accumulative experience in 1990 as indicated in the economic analysis section above. However, the stability of the urban planning policy depends heavily on the vigorous compliance of individual city governments to the central policy and the central government reaction to their degree of compliance. The macro economic control that the author mentioned in chapter two of this thesis is a typical example of the central government’s reaction to the overheated economy. Otis established its second manufacturing joint venture in 1996 after the macro economic control ended in 1995 also indicated Otis’ optimistic vision to the economic development but yet very cautious reaction to the central government planning activities.

All buildings in China were State owned and the legal framework related to property development was virtually non-existent before China opened its market in 1979. The lack of a perfect legal framework has produced conflicts and confusions within the property market and officials within individual provinces or cities appeared to follow different set of guidelines emerged from different sources in various occasions. To increase Otis’ security in this market, they needed customers to place 20 to 30% deposits to process their orders. The market situation has been chaotic until the State Council promulgated a full set of property laws in July 1997. Nevertheless, the stability of market situation is dependent upon the willingness of officials to follow these laws. The planning chaos coupled with confusion in the Chinese legal system means that Otis’ negotiation for joint venture in the future has involved a high level of uncertainty.
In summary, the political environment has a *strong encouragement* on negotiation on foreign joint venture. This *strong encouragement* rating, however, must be downgraded to a *moderate encouragement* when the planning chaos and confusion in the Chinese legal system are taken into consideration because of the uncertainty concerned.

*Technological Environment*

When Otis established their first joint venture in the Chinese market in 1984, the Chinese technology was pretty remote from the Western standard. Otis was able to convince their Chinese party to accept older but more appropriate technology in this joint venture. In their newest joint venture in Guangzhou with Nanfang Elevator, the factory uses the most up to date technologies i.e. JIT, Bar Coding inventory system. The difference in technology adaptation indicates the speed of technology transfer and the Chinese ability to absorb these modern technologies.

To cater for the booming of the property market, Otis is committed to introduce the most advance system to the Chinese market. For example, the CHVF elevator is a typical example in their commitment. There are some other potential technologies Otis is able to transfer to this market. For example, the Otis' Linear Elevator introduced in Japan in 1993 and the Centralised Remote Elevator Monitoring (REM) system introduced in Hong Kong in 1995 are both advance technologies which could be incorporated in future projects. There is evidence that Otis has been bringing in technology from their overseas subsidiary to serve the important Chinese market. For example, in their recent winning of the US$ 10 million project to supply 74 units for the Grand Gateway complex in Shanghai, Otis Stadthagen, Germany factory was providing the escalators for the project while the Boomington, Indiana factory would be supplying the source of the gearless elevators. The Liverpool, England factory was contributing the ACVF units. “Our combined efforts helped meet the developer’s demanding requirements and provided the owner with the highest confidence in our products and services...This is an outstanding opportunity for Otis to showcase its products in one of Shanghai’s largest prestigious developments,” their general manager of Shanghai Mr William B Johnson said. In this tender, Otis also won over their competitors, Mitsubishi, Toshiba and Schindler.

In the competitive area, Otis is two and half time the size of the closest competitor, Schindler. In term of Boston Consulting Group’s matrix, their cash flow situation is much better than their competitors. This implies they can put more money into research and development in products and services which is hardly matched by their competitors.

In summary, the technology environment rates a *strong encouragement* to Otis to negotiate new ventures in China because:
1. They have successfully transferred the most up to date technologies to their Guangzhou unit;
2. They have more technologies to be introduced in the Chinese market;
3. They have established the image of technology leader in the Chinese market; and
4. They can put in more money into research and development.

The environmental influence on Otis' joint venture negotiation in China can be found in figure 4.13.

<table>
<thead>
<tr>
<th>Figure 4.13</th>
<th>Environmental influence on Otis joint venture negotiation in China</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Economic environment</strong></td>
<td><em>strong encouragement</em></td>
</tr>
<tr>
<td>• Tremendous growth in the property market, in general, encourages Otis to negotiate for joint ventures in China.</td>
<td></td>
</tr>
<tr>
<td>• High growth in strategic cities directed their site selection of these joint ventures.</td>
<td></td>
</tr>
<tr>
<td>• Aggressive competitive actions have been putting great pressure on Otis to increase their effort to negotiate joint ventures in the future.</td>
<td></td>
</tr>
</tbody>
</table>

| **Political/legal environment** | *moderate encouragement* |
| • Stable political environment encourages Otis to negotiate for new joint venture. |
| • Planning chaos due to a shortage of qualified urban planner within the legal framework may hinder Otis' negotiation of joint venture projects in China. |
| • Lack of clear guideline within the Chinese legal system has a negative effect on Otis' negotiation progress. |

| **Technology environment** | *strong encouragement* |
| • Otis has successfully transferred their advance technologies to their Guangzhou unit. |
| • Otis has a pipeline of technologies to be introduced in the Chinese market. |
| • Otis has established an image of technology leader in the Chinese market. |
| • Otis is able to put more money into R & D than its competitors in the technology area within an industry that is oligopolistic in nature. |

**Organisational constraints**

At the time of the interview with Mr. Vincent Kwan, Otis China Ltd has not been established and therefore all joint ventures in China have been negotiated from the Singapore regional office. Otis head office in the U.S.A. has been totally bureaucratic in making decision in investment amount, the extent of technology transfer and life span of the contract. The decisions of transferring Otis' Logo, intellectual Property Right and Licensing, dividend arrangement, plant specification and board representation were collectively made at their regional head office in Singapore with the general manager's consensus. The negotiation team could make decisions on expatriate' expenses and labour allowance. These two decisions are heavily geared to the domestic legal framework which the head office or regional office had little influence. Their decision making pattern can be found in figure 4.14 below.
Figure 4.14  Extend of influence from Corporate Head Office and Regional Head Office

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>Extend of influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment amount</td>
<td>strong influence</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>strong influence</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>strong influence</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>strong influence</td>
</tr>
<tr>
<td>Board representation</td>
<td>strong influence</td>
</tr>
<tr>
<td>Expatriates' expenses</td>
<td>no influence</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no influence</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>Strong influence</td>
</tr>
<tr>
<td>Transfer of Otis logo</td>
<td>Strong influence</td>
</tr>
<tr>
<td>Transfer of intellectual Property Right and licensing</td>
<td>Strong influence</td>
</tr>
</tbody>
</table>

Figure 4.14 shows that the Corporate and Regional Head Offices have tightly controlled the team's decisions in negotiation with their PRC counterparts. This decision making pattern partly reflected Otis' conservative corporate culture which is not abnormal within the company with more than 100 years of history. In addition, the moderate encouragement rating in the political/legal environment also implies there has been a certain level of risk involved in the Chinese property and contraction market. Therefore, Otis must rely on this type of 'collective wisdom' when they approached the Chinese market.
## Joint venture negotiation strategies and process

### Figure 4.15 Otis joint venture negotiation in China - a comparison

<table>
<thead>
<tr>
<th>Ideal</th>
<th>Otis</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-negotiation stage</strong></td>
<td><strong>Pre-negotiation stage</strong></td>
</tr>
<tr>
<td><strong>Organisation Objectives</strong></td>
<td><strong>Organisation Objectives</strong></td>
</tr>
<tr>
<td>• Identification of PRC bureaucratic structure</td>
<td>• Identification of PRC bureaucratic structure</td>
</tr>
<tr>
<td>• Identification of common marketing and financial goals</td>
<td>• Identification of common marketing and financial goals</td>
</tr>
<tr>
<td><strong>Personal Objective</strong></td>
<td><strong>Personal Objective</strong></td>
</tr>
<tr>
<td>• Identification of PRC negotiators’ goals</td>
<td>• Identification of PRC negotiators’ goals</td>
</tr>
<tr>
<td><strong>Etiquette</strong></td>
<td><strong>Etiquette</strong></td>
</tr>
<tr>
<td>• Eating and drinking</td>
<td>• Attend informal meeting</td>
</tr>
<tr>
<td><strong>Degree of matching</strong>: Strong</td>
<td><strong>Degree of matching</strong>: Strong</td>
</tr>
</tbody>
</table>

### Negotiation stage

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Collaborating</td>
<td>• Collaborating</td>
</tr>
<tr>
<td>• Compromising</td>
<td>• Compromising</td>
</tr>
<tr>
<td>• Perceptions on PRC negotiators’ strategies and respond</td>
<td>• Perceptions on PRC negotiators’ strategies and respond</td>
</tr>
<tr>
<td>• Patience</td>
<td>• Patience</td>
</tr>
<tr>
<td>• USP</td>
<td>• USP</td>
</tr>
<tr>
<td>• Clarifying important issues</td>
<td>• Clarifying important issues</td>
</tr>
<tr>
<td><strong>Degree of matching</strong>: Strong</td>
<td><strong>Degree of matching</strong>: Strong</td>
</tr>
</tbody>
</table>

### Post negotiation stage

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Closely monitor Chinese economic development</td>
<td>• Closely follow own company policies when changing terms</td>
</tr>
<tr>
<td>• Closely follow own company policies when changing terms</td>
<td>• Patience</td>
</tr>
<tr>
<td>• Patience</td>
<td>• Patience</td>
</tr>
<tr>
<td><strong>Degree of matching</strong>: Moderate</td>
<td><strong>Degree of matching</strong>: Moderate</td>
</tr>
</tbody>
</table>

### Contract signing stage

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Closely follow own company’s objectives</td>
<td>• Closely follow own company’s objectives</td>
</tr>
<tr>
<td>• Closely monitor Chinese economic &amp; political environment</td>
<td>• Thoroughly check contract terms against company policies</td>
</tr>
<tr>
<td>• Thoroughly check contract terms against company policies</td>
<td>• Patience</td>
</tr>
<tr>
<td>• Patience</td>
<td>• Patience</td>
</tr>
<tr>
<td><strong>Degree of matching</strong>: Moderate</td>
<td><strong>Degree of matching</strong>: Moderate</td>
</tr>
</tbody>
</table>

### Post-contract signing stage

<table>
<thead>
<tr>
<th>Strategies</th>
<th>Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Closely monitor PRC economic development and reflect on the contract</td>
<td>• Communicate with PRC government department to obtain implementation license</td>
</tr>
<tr>
<td>• High level negotiation</td>
<td>• Patience</td>
</tr>
<tr>
<td>• Patience</td>
<td>• Patience</td>
</tr>
<tr>
<td><strong>Degree of matching</strong>: Weak</td>
<td><strong>Degree of matching</strong>: Weak</td>
</tr>
</tbody>
</table>
The actual strategies and negotiation process are compared with the ideal strategies and process in figure 3.6 in chapter 3. Readers must bear in mind that the documentation section 2.4.1.3.4 are the standard legal requirements at various stages in the negotiation process and therefore they will not appear in this analysis section.

The ideal joint venture negotiation process and strategies in figure 3.6 and those of Otis are matched in figure 4.15 above. There is a strong matching pattern at the pre-negotiation and the negotiation stages. In the pre-negotiation stage, the only difference is the format of handling etiquette in China. Besides meeting their Chinese counterparts in restaurants, Otis’ negotiation team also met them on other occasions i.e. golf course. In the negotiation stage, Otis staffs needed to clarify some important issues before they could proceed to the next round of formal negotiation talk. For example, evidence indicated that Otis needed to go through lengthy discussion with their partner on how to renovate the Chinese factory that became an important asset of the joint venture. The basis for the transfer of Otis technology and its compensation were also needed to reflect in the Technical Co-operation Agreement.

The pattern of Otis’ joint venture negotiation in China is essentially the same as the ideal pattern except that monitoring the Chinese economic/political conditions seems to be missing in the post negotiation and the contract signing stage and higher level negotiation is missing in the post contract signing stage. Because at least two third of Otis’ elements presented in these three stages match with those of the ideal, a moderate rating is assigned. The absence of Otis’ monitoring on the economic/political situations is not a rational attitude of a global marketer like Otis. However, the oligopolistic market nature and the market leader position of Otis gave a lot of leverage to their negotiation exercises in China.

Otis has not gone through higher level negotiation on the contract terms after it has been signed and therefore a weak rating is assigned in the post-contract signing stage. It implies that their Chinese counterparts had never re-negotiated the contract terms at this stage. A potential reason is that Otis spent considerable effort in the previous stages in clarifying issues and in modifying terms before the contract was signed. Therefore, both parties were fully satisfied and understood the terms of the contract and changing them after signing was not necessary. The oligopolistic industry nature also initiated both parties to work in a harmonious environment.

The analyses in this section show that Otis has been approaching the Chinese market in a stage by stage process. As indicated on figure 4.15, Otis progressed very slowly in going through every individual stage. The resolution of differences required numerous interactions and effort between Otis and their Chinese counterparts. But effort paid off when mutual understanding was established and terms on the contract remained unchanged after it had been signed.
This section discussed the strategies and process of the joint venture negotiation. The next section is to discuss the supportive elements in the negotiation process.

Joint venture negotiation pillar

According to figure 3.5 in chapter 3, joint venture negotiation pillar consists of two components:

**Figure 4.16 Cultural influence on Otis joint venture negotiation in China**

<table>
<thead>
<tr>
<th>Cultural components</th>
<th>Evidence of cultural influence: strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>predicted Guanxi influence on joint venture negotiation process: strong</td>
<td></td>
</tr>
<tr>
<td>• Otis has built up good guanxi with the Ministry of Machinery.</td>
<td></td>
</tr>
<tr>
<td>• Otis has established good guanxi with local partners through inter-company visits.</td>
<td></td>
</tr>
<tr>
<td>• Otis has consolidated good guanxi with local customers through inter-company visits.</td>
<td></td>
</tr>
<tr>
<td>• Otis emphasised on long term relationship with all their partners and customers.</td>
<td></td>
</tr>
</tbody>
</table>

| predicted Face influence on joint venture negotiation process: strong |
| Evidence of face influence: strong |
| • Otis presented gifts to enhance the Mianzi of their PRC counterparts in appropriate occasions e.g. banquets. |
| • Otis never confronted their Chinese counterparts concerning any issues but attempted to solve them in some private meetings. |
| • Otis conceived that giving face or mianzi to Chinese partners is a cultural respect which happen so naturally when penetrating the Chinese market. |

| predicted Reciprocity influence on the joint venture negotiation process: strong |
| Evidence of reciprocity influence: strong |
| • Otis has established a large training centre in Tainjin that is the largest within the region to train local employees. |
| • Another training centre was established in Guangzhou in 1995 and its qualification has been recognised by the Guangzhou Labour Bureau since then. |
| • Otis sourced production materials locally. |

| predicted Renging influence on the joint venture negotiation process: strong |
| Evidence of Renging influence: weak |
| • Otis donated a lift to McDonald House that does not have direct business relationship with them. This action of doing favour produced harmonious relationships with the local community that may lend them support in future business development. |

| predicted Trust influence on the joint venture negotiation process: strong |
| Evidence of Trust influence: strong |
| • Through tight co-operation with their Chinese partners, trust has been established between Otis and their Chinese partners. |
| • The successful establishment of 5 joint ventures in China allows Otis to have strong support from the Ministry of Machinery and the Labour Bureau. |
| • The support of reliable goods and services and Otis’ reputation in the Chinese market have built up customers’ trust on them. |

1. The mutual adaptation of unique Chinese cultural elements by the foreign and the Chinese parties e.g. guanxi, face, reciprocity, renging and trust by the foreign and the Chinese parties;
2. The foreign party’s Problem Solving Attitude (PSA) in the joint venture negotiation project.
The evidence of these components was reviewed in the case study body. This section is to justify their importance in the joint venture negotiation process. The model in figure 3.5 and 3.6 of chapter 3 predicted that these components have strong influence throughout the joint venture negotiation process. As shown in figure 4.13, Otis spent considerable effort to manipulate these cultural elements and strong influence on these elements were evidenced except the element of renqing that has a weak rating. The award of these rating follows exactly the same rules that the author of this thesis specified in the IBM case.

Figure 4.17 below shows the evidence of Otis Problem Solving Attitude in negotiating with their joint venture partners. The information collection and the information exchange are perceived to have a strong influence on Otis negotiation process with their Chinese partners because they allowed Otis to carefully match their expectations with the PRC’s requirements.

**Figure 4.17 Otis Problem Solving Attitude (PSA) in Chinese joint venture negotiation**

<table>
<thead>
<tr>
<th>Predicted level of information collection influence on joint venture negotiation</th>
<th>strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of information collection influence</td>
<td>strong</td>
</tr>
<tr>
<td>• Otis collected macro information concerning urban planning data that help them evaluate the market potential and production requirements.</td>
<td></td>
</tr>
<tr>
<td>• Otis also collected micro information concerning the potential partners’ requirement including their technology requirement.</td>
<td></td>
</tr>
<tr>
<td>• Otis analysed this information and generated issues concerning the joint venture and put them on the joint venture proposal.</td>
<td></td>
</tr>
<tr>
<td>• Otis visited their PRC partners’ sites to obtain information.</td>
<td></td>
</tr>
<tr>
<td>• Otis used outside consultant to conduct due diligence assignment upon analysing the information given by their PRC counterparts</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Predicted level of information exchange influence on joint venture negotiation</th>
<th>strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of information exchange influence</td>
<td>strong</td>
</tr>
<tr>
<td>• Otis mainly gave public information and their expectation to their Chinese counterparts.</td>
<td></td>
</tr>
<tr>
<td>• Through careful matching and information exchange, Otis could rightly search for a partner for a joint venture project.</td>
<td></td>
</tr>
</tbody>
</table>

**Joint venture outcome**

When asked about the joint venture outcomes, Mr. Kwan was satisfied with the profit, market penetration, credibility and reputation, future investment intention and learning experience in their joint venture projects in China. The satisfactory outcomes are briefly discussed below.

According to Otis’ JV chronological record in figure 4.12, Otis has been approaching the Chinese very cautiously and slowly. They started negotiating their first joint venture in Tianjin in 1979 and established it in 1984. It was not until 1992 that they set up the second joint venture in Beijing. This coincided with Deng’s famous visit to the Southern part of China. The slow penetration allowed Otis to skim profit from the Chinese market. For example, their Tianjin operation has been very successful
in China taking 25% of the domestic market and earning 24 million-yuan RMB in 1990. Otis enjoyed 7.2 million yuan or a bit under US$ 1 million which was generated from an initial investment of US$ 1.5 million in 1984. Because of their extremely successful operation in Tianjin, they have put in at least US$ 15 million into their Guangzhou joint venture that indicated their high confidence level in the Chinese market. Otis has obtained a total number of 5,000 escalators and elevators in 1996 that definitely have substantial profit contribution to their Asian Pacific Operations. They sold 14,000 escalators and elevators in 1995. This evidence indicated that their profit satisfaction level is high.

Otis’ penetration into the Chinese market has been excellent because they obtained a substantial size of orders from major Chinese cities. For example, they have secured supply contracts to provide 48 escalators for Metro Line one in 1995 valued at US$ 10 millions and 120 escalators for Metro Line two in 1996 valued at US$ 16.5 millions both at Shanghai. They have also obtained orders from Guolian of US$ 11 million and Shenzhen of US$ 8.5 million in 1995. All the above orders were record breakers at the time and indicated Otis’ satisfaction of penetrating into the Chinese market has been very high.

With Otis’ extensive management experience in China, they are able to apply their multi-domestic approach in the Chinese market. This enabled them to use local people’s knowledge to respond to the need of the Chinese market and initiated them to establish a strong marketing team to penetrate the Chinese market. Their training centres in Tianjin and Guangzhou also provide training to middle management personnel and the qualifications are recognised by the local labour departments. This training strategy is important to Otis’ overall achievement in China. In view of these, the satisfaction level on management experience must be rated as high.

There is evidence to show that the material procurement problem that appeared in their Tianjin plant more than 13 years ago has been solved. Also, the employment of a Just-In-Time (JIT) system in their Guangzhou plant indicates that they have very close contact and wholehearted co-operation with their suppliers. Therefore, the satisfaction on the product-sourcing dimension must be rated as high.

The credibility and reputation dimension is also rated as high because they have established good guanxi with their major customers in all capital cities in China and naturally they will have very good support from these customers. Also, Otis published a trade book “A Spiritual Resonance: The Vernacular Dwellings of China” which will certainly increase their reputation and credibility in the property and building market.

Their intention to invest in the Chinese market is also rated as high because they have substantially increased their investment to more than US$ 15 million in their Guangzhou that was a great commitment in this market. Their commitment is apparent when they established a joint venture holding company in Beijing in 1997 to manage all their joint venture operation in China. In doing
that, Otis is looking at the Chinese market as one single market and they semi-detach it from their Singapore regional head office.

Their learning experience is also highly satisfied. They have developed a unique business operation mode in China. For example: they have adopted a multi-domestic approach; they understand the Chinese market by watching the credit situation very carefully; and they know patience is the key of doing business in China.

**Figure 4.18 Satisfaction of joint venture outcome in China**

<table>
<thead>
<tr>
<th>Profit satisfaction level: high</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Otis Tianjin has been very successful in China taking 25% of the domestic market and earning 24 million-yuan RMB in 1990. Otis enjoyed 7.2 million yuan or a bit under US$ 1 million which was generated from an initial investment of US$ 1.5 million in 1984. The profit to investment ratio was extraordinary substantial.</td>
</tr>
<tr>
<td>- Otis putting in US$ 15 million into their Guangzhou joint venture in 1994 in their investment indicated their confidence in profit in the Chinese market.</td>
</tr>
<tr>
<td>- Otis received a total number of 5,000 escalators and elevators in 1996 that definitely have substantial profit contribution to Otis Asia Pacific sales level of 14,000 escalators and elevators in 1995.</td>
</tr>
</tbody>
</table>

**Market penetration satisfaction level: high**

- Otis Shanghai has been penetrating into major cities in the Chinese market. For example, They have secured supply contracts in Shanghai i.e. 1) 48 escalators in Shanghai Metro line 1 in 1995 valued at US$ 10 million; 2) 120 escalators in Shanghai Metro 2 in 1996 valued at US$ 16.5 million.
- Otis Tianjin clinched US$ 11 million contract in Tianjin to supply elevators and 42 escalators to GuoLian project in Chang Chun in 1995.
- Otis Tianjin booked US$ 8.7 million contract for 54 units in Shenzhen Economic Corp Building in Shenzhen.
- Record breakers of Otis’ orders at provincial levels promoted their market leadership image.

**Management experience satisfaction level: high**

- With more than 14 years of operation experience in China since 1984, Otis has accumulated vast human resource management experience.
- Their training centres in Tianjin and Guangzhou enable Otis to train local management level personnel which is important to Otis development in China.

**Product sourcing satisfaction level: high**

- Otis’ Tianjin plant committed in local sourcing since 1984.
- The implementation of JIT concept at Otis Guangzhou implies co-operation with local suppliers is a necessity.

**Credibility and reputation satisfaction level: high**

- The establishment of excellent guanxi with customers in major Chinese cities enables Otis to build up their reputation and credibility.
- Otis increased their reputation by publishing a trade book “A Spiritual Resonance: The Vernacular Dwellings of China” which called for conservation of buildings.

**Future investment intention satisfaction level: high**

- The increase of investment from the initial US$ 1.5 million in their first joint venture in Tianjin to US$ 15 million in the joint venture in Guangzhou indicated their total commitment in the Chinese market.
- The establishment of Otis China as a holding company in 1997 further show their confidence to organise China market as a separate business.

**Learning experience satisfaction level: high**

- Multi-domestic approach is being adapted in the Chinese market and is being well received by Chinese employees.
- Credit situation must be watched carefully.
- Patience is the key in Chinese operation.
4.3.3 Conclusion

There is strong evidence to show that Otis Joint Venture negotiation in China follows the model proposed on figures 3.5 and 3.6.

Environment

The economic conditions in China rate strong encouragement on Otis’ negotiation in China. At macro level, the high growth in the Chinese construction and building market is a driving force. At micro level, the specific growth in individual cities and the competitive activities became their important considerations in approaching the Chinese market.

The political/legal environment showed a moderate encouragement on Otis joint venture negotiation in China. In saying that, the stable political environment alone culminated in a strong encouragement to IBM’s development in China. However, the political/legal rating is downgraded to a moderate encouragement because of the planning chaos and the lack of clear guideline from the Chinese legal system.

The technology environment culminates a strong encouragement to Otis’ development in China. All factors listed on figure 4.13 indicate Otis is very competitive in this area.

Organisational constraints

Otis head and regional office had a strong influence on Otis negotiation in China that reflected Otis’ conservative attitude to carefully monitor Otis development in China. It may be due to their unhappy experience of potential expropriation after the People’s Republic of China was established in 1949. According to Bradley (1977), a sales and service operation is a likely target of expropriation after the government change hand in a third world country.\textsuperscript{xvi}

Similar to IBM, Otis corporate /regional office exert nil influence on decisions such as expatriates’ expenses and labour allowances because of their pre-determination by the Chinese government.

Joint venture negotiation strategies and process

Otis has been approaching the Chinese market in a prudent stage-wise process. The negotiators progressed very slowly in every individual stage. The resolution of differences required numerous interactions and effort between Otis and their Chinese counterparts. But effort paid off when mutual understanding was established and terms on the contract remained unchanged after it had been signed.
Joint venture negotiation pillar

All the five Chinese cultural elements have a strong influence throughout the joint venture negotiation process. Also, Otis negotiators made a huge effort to collect information regarding the Chinese environmental influences and their joint venture partners. They also exchanged information with their Chinese counterparts and utilised the information to match their resources with the Chinese firms’ expectation. In summary, Otis’ negotiators equipped themselves with a problem-solving attitude (PSA).

Joint venture outcome

Otis had a high satisfaction level on all evaluative dimensions in the PRC market.

The Otis case was a “whole” study on the joint venture negotiation model from a foreign negotiator’s perspective in a sense that it demonstrated the importance of the environment influences on Otis joint venture negotiation in China. The corporate and the regional head office perception on the Chinese market potential also determine their business mode of operation in China, which exert a strong level of influence on the negotiators. The importance of the joint venture negotiation pillar was also demonstrated. In fact, the whole case illustrated that a cross-cultural joint venture negotiation in a Chinese context must be approached in a holistic nature. The company must evaluate the environmental context in a specific country i.e. China. The specific environment and management perception on that market determines the influence that the corporate head office exerting on their negotiators. The negotiators must appreciate the unique culture and process with problem-solving attitude (PSA) when negotiating with their counterparts throughout the negotiation process. In the case of China, it is a five-stage model that is determined by its bureaucratic legal system.

In summary, the Otis joint venture negotiation process in China is identical to the model proposed in figure 3.5 and 3.6 in chapter 3.

4.4 BAYER CHINA LTD.

“We won’t do anything illegal. But finding positions for them (the PRC negotiators) in the new ventures or sponsoring their kids to Germany for studying is no trouble!”

- Dr. Jur Markus Arnold- General Legal Counsel (China), Bayer China Ltd. 3

3 The preparation of this case was based on an interview with Dr. Jur Markus Arnold - General Legal Counsel (China), Ms Celina Chew - Legal Counsel both at Bayer China Ltd. and articles cited at the reference section of this case.
4.4.1 Background

Bayer AG is one of the largest chemicals and pharmaceutical companies in the world and is the largest in Germany. The 21 business units within the Bayer group’s 350 companies are marketing chemicals to the entire chemical related sectors ranging from health care, agriculture, through engineering materials and chemicals, to photography and graphic systems. Most of these business groups are market leaders such as Agfa Division, Reckitt & Colman, and Bayer Aspirin. The total annual sales were DM 48 billion in 1996 with a total employment of 142,000 in over 140 countries.\textsuperscript{\textit{a}}

Bayer AG entered the Chinese market as early as 1983 but withdrew from this market shortly after the June 4 incident in 1989. However, its market potential and presence of its competitors motivated Bayer to re-consider entering the Chinese market in early 1990. They have been actively negotiating joint venture projects with their Chinese counterparts since late 1993. Bayer China Ltd. was also established in Beijing as a holding company in 1994 to manage these joint venture projects in China.

Because the “Four Modernisations” program has restricted the manufacturing and marketing of their products, and the Chinese Government has not permitted the establishment of a wholly owned subsidiary, joint venture has become their only option to enter the Chinese market. In April 1993, one of their board members Dieter Becher discussed Bayer’s detailed market study with Madam Guo Xiu Lian-Minister of Chemicals on the Chinese market. The head of Bayer China Ltd, Mr. Portoff recalled: “We present our own concept. She agreed and, based on these discussions, we proceeded!”\textsuperscript{\textit{b}} They signed a US$ 200 million multi-project agreement on the 27th November 1993 covering future investment activities in the areas such as engineering and construction, technology exchange, joint research projects and development in chemicals and pharmaceuticals, environmental protection, market development, and personnel training. This multi-project agreement became the negotiation platform on their subsequent joint venture projects with their potential PRC partners. The agreement, did not, however, cover details of any individual venture. Bayer needed to work out the details with the relevant industrial zones or industrial entities on individual basis.

Bayer negotiated their first joint venture (JV) in 1994 and signed the first JV contract in Nov 1995 and started manufacturing flavours and fragrance in Shanghai in 1996. Meantime, they also established numerous contacts. These contacts became an important basis for their ongoing negotiations in China. In 1997, Bayer China had successfully negotiated ten joint venture projects with an average size of under US $ 30 millions.

Their present joint ventures in China include a joint venture with Beijing Economic Technological Investment Development Corporation (BETIDC) in which Bayer holds 95% equity. Another joint venture in Wuxi, Agfa Wuxi Film Production Co. Ltd has already opened a facility for colour film,
colour paper and X-ray film. The Bayer Group is very optimistic in the China market and attempts to double its sales from present level of DM 722 million to DM 1.5 billion within the next 10 years.\textsuperscript{iv}

4.4.2 Within case analyses

The data provided by Bayer suggest that their joint venture negotiation experience is highly compliant with the joint venture negotiation model in figures 3.5 and 3.6 in chapter 3. In the following section the eight research questions listed at the beginning of this chapter will be investigated to give a general conclusion on Bayer joint venture negotiation in China.

Environmental influence on joint venture negotiation

When asked about questions related to environmental influence on the negotiation process, the strategic context mentioned by Hunger and Wheelen (1993) is important considerations when Bayer negotiated joint venture projects in China. In this section, only the economic, legal and technology context are discussed, the cultural context will be disguised in later section as mentioned in the comprehensive negotiation model on figure 3.5 and 3.6.

*Economic Influence*

As the author of this thesis mentioned in the background section of this case, the Chinese market has a huge potential for chemicals and its related products. Admitted by Dieter Becher, one of the Bayer’s board members of management: “it is obvious that import cannot be the long term basis to supply what may be one of the world’s biggest single markets in the not-too-far future.” This huge import of chemical and related products has been used to fill up the huge demand which have not been fulfilled by relatively small domestic supply. However, this import of chemical and related products could eventually 1) drive the hard currencies reserve to a dangerous level & 2) create uncertainty to the domestic industries which need to incorporate these chemicals and related products to their production processes because of the fluctuation of world prices for these commodities. For example, the total import demand for petrochemicals was expected to exceed 2 million m.t. in 1994 but had reached only 1 million m.t. as prices continued to soar.\textsuperscript{xv} These two reasons have initiated the Chinese government to include the chemicals and related industries into the “Four Modernisations” program that subsequently called for a restructurings of these industries in the PRC. Restructuring usually means modernisation of the chemical industries at the same time. This has been giving a lot of leverage to foreign firms to negotiate favourable terms with their potential Chinese partner because of their technological contributions. On the contrary, the leverage of the Chinese organisations lies in the vast market potential, the abilities of their channel of distribution and the limitation of freedom for the foreign firms to negotiate with them. Claimed by Charles O. Holliday, president of Dupont
Asia/Pacific: "...it is now the partners (foreign investors) competing for projects. There can be two or three foreign producers competing for each major chemicals project."

A chronological record of Bayer ventures can be found in figure 4.19. With their world-wide experience and technological contribution, Bayer has been able to negotiate controlling interest in most of their joint ventures in China. Bayer has been moving in the Chinese market quickly because of its intention of catching up with its growth and its reaction to the perceived intense competition in the Chinese market as mentioned above. The negotiation for all the 10 joint ventures listed were completed in a 3-year period ending 1997.

As indicated, all the 10 joint ventures of Bayer are located in the major business centres i.e. Shanghai and Beijing or industrial cities i.e. Wuxi, Qingdao and Jiangsu. The developments of the chemical industries of these cities have been extra-ordinary. For example, Shanghai was quoted by the Chemical week as "the premier chemicals centre". Mr. Geoff Lindley, Project General Manager of one large chemical firm concurred: "The rate of growth is unbelievable...The changes I've seen in Shanghai in the last 18 months are out of this world." With the aids from their Chinese partners' distribution capacities, Bayer's sales in the Chinese market increased from US$ 500 mil in 1993 to US$ 722 mil in 1996.

In summary, the economic environment rates as a strong encouragement on Bayer's activities in China. Strong internal demand encouraged Bayer to negotiate joint ventures in China. Strong growth in individual cities or industrial centres directed Bayer to co-operate with potential partners in these places. Strong competition put pressure on Bayer to negotiate a large number of projects simultaneously.
<table>
<thead>
<tr>
<th>Contract signed</th>
<th>Schedule operation</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nov 1994</td>
<td>Mar 1996</td>
<td>Joint ventured with a company to establish a factory to manufacture</td>
</tr>
<tr>
<td></td>
<td></td>
<td>flavours and fragrances in Shanghai. Chinese parent: the Ministry of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Health.</td>
</tr>
<tr>
<td>Nov 1994</td>
<td>Mar 1996</td>
<td>Joint ventured with Wuxi Film Production to establish Agfa Wuxi Film</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Production in Wuxi. Chinese parent: China National Petrochemical</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Corporation (Sinopec) and the Ministry of Chemicals.</td>
</tr>
<tr>
<td>Dec 1994</td>
<td>Mar 1996</td>
<td>Joint ventured with Beijing Economic Technological Investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Development Corporation (BETIDC) to establish Bayer Health care</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Company in Beijing. Investment amount US$ 30 mil; products: adalat</td>
</tr>
<tr>
<td></td>
<td></td>
<td>anti-angnostic and nimotop calcium channel blocker, and several types</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of diagnostic test strips; Equity share: Bayer 95% and BETIDC 5%.</td>
</tr>
<tr>
<td>Dec 1994</td>
<td>Aug 1997</td>
<td>Joint ventured with Beijing Guangyi Polycarbonate Board Co. to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>establish Bayer Guangyi Board Co. Ltd. in Beijing. Investment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>amount US$ 12.5 mil; product: polycarbonate board.</td>
</tr>
<tr>
<td>Mar 1995</td>
<td>Nov 1996</td>
<td>Joint ventured with Shanghai Coatings to establish Bayer Shanghai</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pigments in Shanghai. Investment amount: US$ 18 mil. product: iron</td>
</tr>
<tr>
<td></td>
<td></td>
<td>oxide grinding and mixing; Equity share: Bayer 67% and Shanghai 33%;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Capacity: 20,000 m.t./year. Chinese parent: Sinopec and Ministry of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chemicals.</td>
</tr>
<tr>
<td>Mar 1995</td>
<td>early 1997</td>
<td>Joint ventured with Wuxi Dyestuffs to establish Bayer Wuxi Dyestuffs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>in Wuxi. Product: dispersion dyestuffs; capacity: 2,000 m.t./year.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chinese parent: Sinopec and the Ministry of Chemicals.</td>
</tr>
<tr>
<td>Mar 1995</td>
<td>early 1997</td>
<td>Joint venture with Wuxi Dyestuffs to establish Bayer Wuxi Leather</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chemicals Co. in Wuxi. Investment amount: US$ 20 mil; Product:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>leather chemicals; Equity share: Bayer 95% and Wuxi 5%. Chinese</td>
</tr>
<tr>
<td></td>
<td></td>
<td>parent: Sinopec and the Ministry of Chemicals.</td>
</tr>
<tr>
<td>May 1995</td>
<td>early 1997</td>
<td>Joint ventured with Shanghai Chlor-alkali Chemicals Holdings to</td>
</tr>
<tr>
<td></td>
<td></td>
<td>establish Bayer Shanghai Chemicals in Shanghai. Investment amount US$</td>
</tr>
<tr>
<td></td>
<td></td>
<td>73 mil; product: makrolon polycarbonate; Equity share: Bayer 90% and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shanghai Chlor 10%; Capacity: 18,000 m.t./year. Chinese parent: China</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Petro-Chemical International Company (Sinopec) and the Ministry of</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chemicals.</td>
</tr>
<tr>
<td>Nov 1995</td>
<td>early 1998</td>
<td>Joint ventured with Red Star to establish Bayer Qingdao Co. in</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Qingdao, Shandong Province. Investment amount: US$ 22 mil; product:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>synthetic rubber and inorganic chemicals; Equity share: Bayer 60% and</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Red Star 40%.</td>
</tr>
<tr>
<td>June 1997</td>
<td>early 1998</td>
<td>Joint ventured with Jinling Petrochemical Corporation that is a</td>
</tr>
<tr>
<td></td>
<td></td>
<td>subsidiary of China National Petrochemical Corp. (Sinopec) and the</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ministry of Chemicals to establish Bayer Jinling Polyurethane Co. Ltd.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>in Jiangsu Province. Investment amount is US$ 10 mil; product:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>polyether formulations; Equity share: Bayer 55% and Jinling 45%;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>capacity: 10,000 m.t./year. Chinese parent: Sinopec and the Ministry</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of Chemicals.</td>
</tr>
</tbody>
</table>


**Political/legal environment**

Bayer started approaching the Chinese market after a careful evaluation of its political/legal environment. The law of intellectual property right was announced in March 1989. Nevertheless, foreign firms could not fully consider its implications to their potential investment in China because of the confidence crisis of June 4 exerting on these foreign firms in the same year. As a result, Bayer’s detailed Chinese market study did not start until late 1992 which was after Deng Xiaoping’s famous visit to the Southern part of China to re-build the foreign investors’ confidence and long after that intellectual property right law announcement. The evidence indicated that Bayer has been waiting for a stable investment environment in the Chinese market and the end of 1992 presented such a political environment. Bayer’s Chairman Manfred Schneider openly admitted that he was optimistic about Chinese economic reform and political stability during an interview with a reporter: “our projects in China will proceed at the same rate as originally planned.” Their chief negotiator, Dr. Jur Markus Arnold also concurred that the political situation has no negative impact on their investment. The evidence showed that the stable political situations in China exerted strong encouragement on Bayer’s business development in China.

There were also some encouraging signs with the Chinese legal system. For example, China’s efforts of enforcing the intellectual property right were applauded by Charles O. Hollidays- president of DuPont Asia/Pacific. Nevertheless, Dr. Jur Markus Arnold also cited some evidence with the Chinese legal system that has negative impact on their business development in China:

1. Bureaucratic attitude of MOFTEC which required Bayer to complete mountain of paper;
2. Internal politics or argument within MOFTEC on which organisation should joint venture with Bayer deferred their speed of negotiation;
3. Bayer spent considerable effort to convince MOFTEC on their own method of calculation of VAT tax; and
4. Lengthy procedure of remitting money into bank account deterred establishment of a joint venture.

Such bureaucratic red tape has had negative impact on Bayer’s business development. Therefore, the strong encouragement rating is downgraded to a moderate encouragement rating.

**Technological environment**

Most of the market sectors in the chemical industry are highly fragmented. Each sector is occupied by a lot of small manufacturers but is dominated by a few very large producers. A typical example can be found in the polyether sector. Its consumption in China is expected to have about 7% increase through year 2000 from a base of about 145,000 m.t., noted SRI Consulting. 18 of the 24 producers
were small. The six largest accounted for more than 75% of total annual capacity, which amounted to 110,000 m.t. as of year ending 1995.\textsuperscript{xviii} This highly fragmented industrial structure poses general problems to the chemical industry even though local production could essentially satisfy local demand. These producers aimed at satisfying domestic demand with an outdated technology. Admitted by an official of the Ministry of Chemicals: “China’s producers worry that their industry does not meet the world industry standard in products or plant efficiencies.”\textsuperscript{xix} Also, this local demand driven production mode limits Chinese producers to turn out high quality products for the international market. Commented by another official for the rubber auxiliary sector: “different quality grades (are) causing chaos” in the market. They also decry the inadequate development of new products and technologies that were the result of shortage in research funding.\textsuperscript{1}

In view of the above, the technological environment in foreign joint ventures within the chemical industry is characterised by three dominant principles: 1) maintaining product qualities in the production process; 2) upgrading product qualities to international standard; & 3) improving production efficiency.

Bayer recognises the above three principles whilst strategically penetrating the industrial growth scenario of individual chemical sector. For example, Bayer recently signed a letter of intent with Sinopec Shanghai Gao-Oiao Petrochemical Corp. to establish a synthetic rubber joint venture may partially relieve China’s long-standing shortage of high-quality synthetic rubber.\textsuperscript{ii} Also, in their recent joint venture establishment with Jinling Petrochemical Corporation listed in figure 4.19, the 10,000 m.t. production capacity of polyether is equal to 7% of present market size which absorbs the growth of the market up to year 2000 as mentioned above. This joint venture arrangement demonstrates Bayer’s commitment to help improve the Chinese chemical industry via technology transfer while avoiding direct competition with other domestic producers!

Bayer, in establishing their joint ventures in China, has observed the guidelines provided by MOFTEC. The criteria used by MOFTEC have been whether an applicant for chemical joint venture is a substantial multinational company with either a minimum number of enterprises in China or a long-term commitment to operations in China; and minimum registered capital of US$ 10 mil, which can be used in future investments.\textsuperscript{iii}

Nevertheless, Bayer’s freedom of exercising technology transfer is limited by the negotiation environment imposed by MOFTEC i.e. they cannot freely choose their negotiation party for a particular venture. Therefore, the technology transfer has been dependent upon the technology level of the Chinese party and the technology capacity that the Chinese party could absorb. Furthermore, MOFTEC may nominate two or three foreign companies to negotiate with a Chinese firm for a chemical project which reduce Bayer’s bargaining abilities.
In summary, the technological environment has encouraging signs to Bayer to practice market penetration and technology transfer in China because of its needs to have technology in improving production efficiency, upgrading product quality to international standard and maintaining product quality in production process. Coupled with Bayer’s strategic fit into the China market growth, the technological environment exerted a strong encouragement on Bayer’s joint venture negotiation in China but this rating is downgraded to a moderate encouragement when the influence from MOFTEC and competition are considered.

The environmental influence on Bayer’s joint venture negotiation in China can be found in figure 4.20.

**Figure 4.20  Environmental influence on Bayer joint venture negotiation in China**

<table>
<thead>
<tr>
<th>Economic environment</th>
<th>strong encouragement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Strong internal demand encouraged Bayer to negotiate joint venture.</td>
<td></td>
</tr>
<tr>
<td>• Strong growth in individual cities or industrial centres directed Bayer to co-operate with potential partners in these places.</td>
<td></td>
</tr>
<tr>
<td>• Strong competition initiated Bayer to negotiate a large number of projects simultaneously.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Political/legal environment</th>
<th>moderate encouragement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Political environment has been very stable after Deng Xiaping’s famous visit to the southern part of China.</td>
<td></td>
</tr>
<tr>
<td>• Vigorous implementation of intellectual property right adds confidence to the Chinese legal system.</td>
<td></td>
</tr>
<tr>
<td>• Bureaucratic attitudes deferred timing of establishment joint venture.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technological environment</th>
<th>moderate encouragement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• China urgent needs of technology transfer to improve product quality, product upgrade and production efficiency means that foreign joint ventures are welcomed.</td>
<td></td>
</tr>
<tr>
<td>• MOFTEC bureaucratic procedures have negative impact on the speed of technology transfer.</td>
<td></td>
</tr>
<tr>
<td>• Competition reduces bargaining ability on joint venture based on technology transfer.</td>
<td></td>
</tr>
</tbody>
</table>

**Organisational constraints**

Bayer’s Corporate head office in Germany has been totally bureaucratic in making decisions in transfer of technology and the capital invested in any joint venture project in China. They have been relatively autonomous in making other decisions that are listed in figure 4.21.
Figure 4.21  Extend of influence from Corporate Head Office and Regional Head Office

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>Extend of influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment amount</td>
<td>Corporate Head Office</td>
</tr>
<tr>
<td></td>
<td>Strong influence</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>weak influence</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>weak influence</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>weak influence</td>
</tr>
<tr>
<td>Board representation</td>
<td>weak influence</td>
</tr>
<tr>
<td>Expatriates' expenses</td>
<td>no influence</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no influence</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>Strong influence</td>
</tr>
</tbody>
</table>

Figure 4.21 shows that Bayer’s Corporate Head Office in Germany have exerted minimal influence on the operational decisions made by the negotiation team of Bayer China Ltd. This decision making pattern is very similar to that of IBM’s case and therefore Bayer can be classified as a Strategic Business Unit or SBUiii because it was established as a holding company to manage all joint ventures in the Chinese market. In addition, the moderate ratings in the political/legal and the technology environments in the last section also imply there is some uncertainty involved such as the bureaucratic attitude of MOFTEC when Bayer approached the Chinese market. The autonomous status that Bayer’s head office in Germany granted to Bayer China Ltd. in making operational decisions for the Chinese market as identified in figure 4.21 does not mean that there is no uncertainty involved from the head office point of view. Rather, the autonomous status allows Bayer China and their negotiation team to respond quickly to making decisions according to the Chinese market situations. How Bayer’s negotiators alleviate the uncertainty in their venture when enter into joint venture negotiation is presented in next section.
Joint venture negotiation strategies and process

Figure 4.22  Bayer China joint venture negotiation in China - a comparison

<table>
<thead>
<tr>
<th>Ideal</th>
<th>Bayer</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Pre-negotiation stage</strong></td>
<td><strong>Pre-negotiation stage</strong></td>
</tr>
<tr>
<td><strong>Organisation Objectives</strong></td>
<td><strong>Organisation Objectives</strong></td>
</tr>
<tr>
<td>- Identification of PRC bureaucratic structure</td>
<td>- Identification of PRC bureaucratic structure</td>
</tr>
<tr>
<td>- Identification of common marketing and financial goals</td>
<td>- identification of common marketing and financial goals through information exchange</td>
</tr>
<tr>
<td><strong>Personal Objective</strong></td>
<td><strong>Personal Objective</strong></td>
</tr>
<tr>
<td>- Identification of PRC negotiators’ goals</td>
<td>- identification of PRC negotiators’ goals</td>
</tr>
<tr>
<td><strong>Etiquette</strong></td>
<td><strong>Etiquette</strong></td>
</tr>
<tr>
<td>- Eating and drinking</td>
<td>- attend informal meeting in guanxi establishment</td>
</tr>
</tbody>
</table>

**Degree of matching: Strong**

<table>
<thead>
<tr>
<th><strong>Negotiation stage</strong></th>
<th><strong>Negotiation stage</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>- collaborating</td>
<td>- collaborating</td>
</tr>
<tr>
<td>- compromising</td>
<td>- compromising</td>
</tr>
<tr>
<td>- perceptions on PRC negotiators’ strategies and respond</td>
<td>- perceptions on PRC negotiators’ strategies and respond</td>
</tr>
<tr>
<td>- patience</td>
<td>- patience</td>
</tr>
<tr>
<td>- USP</td>
<td>- USP</td>
</tr>
</tbody>
</table>

**Degree of matching: Strong**

<table>
<thead>
<tr>
<th><strong>Post negotiation stage</strong></th>
<th><strong>Post negotiation stage</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>- closely monitor Chinese economic development</td>
<td>- closely follow own company policies when changing terms</td>
</tr>
<tr>
<td>- closely follow own company policies when changing terms</td>
<td>- patience</td>
</tr>
<tr>
<td>- patience</td>
<td></td>
</tr>
</tbody>
</table>

**Degree of matching: Moderate**

<table>
<thead>
<tr>
<th><strong>Contract signing stage</strong></th>
<th><strong>Contract signing stage</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>- closely follow own company’s objectives</td>
<td>- closely follow own company’s objectives</td>
</tr>
<tr>
<td>- closely monitor Chinese economic &amp; political environment</td>
<td>- thoroughly check contract terms against company policies</td>
</tr>
<tr>
<td>- thoroughly check contract terms against company policies</td>
<td>- patience</td>
</tr>
<tr>
<td>- patience</td>
<td></td>
</tr>
</tbody>
</table>

**Degree of matching: Moderate**

<table>
<thead>
<tr>
<th><strong>Post-contract signing stage</strong></th>
<th><strong>Post-contract signing stage</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>- closely monitor PRC economic development and reflect on the contract</td>
<td>- communicate with PRC government department to obtain implementation license</td>
</tr>
<tr>
<td>- high level negotiation</td>
<td>- further negotiation on contract terms</td>
</tr>
<tr>
<td>- patience</td>
<td>- patience</td>
</tr>
</tbody>
</table>

**Degree of matching: Weak**
The ideal joint venture negotiation process and strategies in figure 3.6 and those of Bayer are matched in figure 4.22 above. There is a strong matching pattern at the pre-negotiation. The only difference is the format of handling etiquette in China. Besides meeting their Chinese counterparts in restaurants, Bayer's staff also met them in some private meetings. They also invited their potential Chinese partners to visit their corporate head office in Germany at Bayer's expense. The relationship building process is vital. Echoed by Milford Harp, Nalco's executive V.P. /operations, "the relationship aspect of such a joint venture is extremely important. We spent a lot of time becoming comfortable with our partner and them with us."³⁶⁴

At the negotiation stage, Bayer staff needed to clarify some important issues such as land use rights, raw material availability³ before they could proceed to the next run of formal negotiation talk which are essential to the structure of the joint venture project. Evidence also shows that long-term profitability has been one of their main negotiation concerns that may terminate the whole negotiation assignment. For example, the negotiation for the hydrazine hydrate joint venture with Tianjin Bohai Chemicals started on December 1993 but was confirmed non-practical in Sept 1996. Mr. Portoff, the head of Bayer China Ltd. explained: "both sides concluded the profitability was not very exciting."³⁶⁵

Evidence also indicated that Bayer has a good perception on their Chinese counterparts' strategies and responses. For example, the investment amount of their largest established joint venture with Chloralkali in Shanghai was initial set at US$ 79 mil but was settled at US$ 73 mil to cater for the limited resources of the Chinese party. Also, the negotiation of the US$ 82 mil polycarbonate joint venture project with Shanghai Tin Yuan Group has been delayed because both parties have decided to relocate the project to the new Caojing Industrial Development Zone at Southern part of Shanghai.³⁶⁶

The complex nature of Bayer's joint venture means that both parties needed to adopt a more flexible negotiation style which was comprised of compromising and collaborating strategies during face to face negotiation. The flexible attitude is evidenced when Bayer's shares in some of their Chinese joint ventures are considered. For example, Bayer allowed their Chinese parties to contribute relatively small shares (i.e. 5%, 5%, and 10%) in terms of land, factory space in their healthcare, leather chemical and Makrolon polycarbonate joint ventures respectively to render their participation in these markets. In fact, Seung recognises that this kind of arrangement is popular among Hong Kong and Chinese firms in his studies on strategic issues in international joint ventures.³⁶⁷ On the contrary, Bayer's substantial interests in these joint ventures shows that their technologies are unique but not up to an indispensable level to justify wholly owned subsidiaries from MOFTEC's point of view.

Bayer's monitoring the Chinese economic/political conditions were not evidenced in the post negotiation and the contract signing stage. The lack of an environmental monitor was not rational for
a global leader like Bayer. In fact, international marketing scholars always advocate the importance of the analytical process in monitoring the economic and political situations in entering a country in the global market. However, there is evidence to show that Bayer noticed the economic and political problems and their implications to their negotiation assignments. However, Bayer considered that they were their Chinese partners’ problems. As such, they may ‘do a favour’ to their Chinese counterparts when these requests came from their Chinese partners. As Dr. Jur. Markus Arnold said: “we try to be reasonable... we will make some compromise from time to time. However, this is not always the case.” In saying that, Bayer adjusted the terms of the contract which were within the scope of the pre-determined strategies/objectives.

There is a weak match at the post contract signing stage. Except the matching of patience of Bayer with the ideal is evidenced, the evidence post contract signing stage given by Dr. Jur. Markus Arnold and Ms Chew cannot be matched with the ideal content of the model. Monitoring PRC economic development and reflecting changes on the contract is not applicable to Bayer’s case which actually mirrors Bayer’s consistent attitude on the post negotiation stage onward i.e. they would not take initiative to change the terms because of changes in economic situations in China. However, they would further negotiate the contract terms with their Chinese counterparts if they considered the request was reasonable. Another potential reason for the negligence of the environment monitoring by Bayer’s negotiation team is that the Chinese team attempted to change the contract terms that they have agreed after the formal negotiation. The amendment of contract terms by Bayer would only add confusion to the contract. Therefore, Bayer just stayed put to await the requests from their Chinese counterparts. Also, Bayer did not go to higher level negotiation except they re-negotiated the contract terms with their Chinese counterparts upon their requests. According to Dr. Jur. Markus Arnold, they would attempt to compromise the requests of the Chinese if the requests were fair and reasonable because they would like to maintain a good guanxi with their Chinese counterparts.

There may be two or three companies competing for a chemical project. Bayer’s main concern was to finalise the projects on hand at the post contract signing stage through close communication with government departments concerned on contract approval and issue of license. For example, concerning their long delay joint venture with Shanghai Chlor-Alkali, their board member, Dieter Becher openly admitted: “we hope to conclude it at the start of next year...but first we must make sure of the permitting from Beijing.”

The analyses in this section show that Bayer has been approaching the Chinese market in a prudent stage-wise process. As indicated on figure 4.22, Bayer progressed very quickly but carefully in every individual stage. The resolution of differences required numerous interactions and effort between Bayer and their Chinese counterparts. But effort paid off when mutual understanding was established and terms of the contract remained flexible after it had been signed.
This section discussed the strategies and process of the joint venture negotiation. The next section is to discuss the supportive elements in the negotiation process.

**Joint venture negotiation pillar**

According to figure 3.5 in chapter 3, joint venture negotiation pillar consisted of two components:

**Figure 4.23  Cultural influence on Bayer joint venture negotiation in China**

<table>
<thead>
<tr>
<th>Cultural components</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Predicted Guanxi influence on joint venture negotiation process: strong</strong></td>
</tr>
<tr>
<td>Evidence of guanxi influence: strong</td>
</tr>
<tr>
<td>- Bayer has established good guanxi with various ministries i.e. the ministry of Chemicals and the Ministry of Health.</td>
</tr>
<tr>
<td>- Bayer invited their Chinese parties, the mayors of Beijing and Shanghai to visit their production plant in Germany to establish good guanxi.</td>
</tr>
<tr>
<td>- Bayer's negotiation team built up guanxi with individual Chinese negotiation member.</td>
</tr>
<tr>
<td>- Inter-company visits were important activities to establish guanxi.</td>
</tr>
<tr>
<td>- Long term relationship was emphasised in every meeting.</td>
</tr>
</tbody>
</table>

| Predicted Face influence on joint venture negotiation process: strong |
| Evidence of face influence: strong |
| - Bayer presented gifts to enhance the Mianzi of their PRC counterparts in appropriate occasions e.g. banquets. |
| - Bayer never openly confronted with their Chinese counterparts concerning any issues but attempted to solve them in some private meetings. |
| - Bayer's negotiation team solved conflicts or problems in private meetings to maintain face of both parties. |

| Predicted Reciprocity influence on the joint venture negotiation process: strong |
| Evidence of reciprocity influence: strong |
| - Bayer granted consultancy contracts to Chinese negotiation members. |
| - Bayer provided positions to Chinese negotiation members in their Chinese joint ventures. |
| - Chinese party did most of the procedural work. |

| Predicted Rengxing influence on the joint venture negotiation process: strong |
| Evidence of Rengxing influence: moderate |
| - Bayer sponsored Chinese negotiation team members’ children to Germany to receive education. |

| Predicted Trust influence on the joint venture negotiation process: strong |
| Evidence of Trust influence: strong |
| - Bayer has built up trust with the Ministry of Chemicals by establishing 6 joint ventures with subsidiaries of Sinopec that is a child of the Ministry of Chemicals. At least 2 more joint ventures are under the process of negotiation with the Ministry of Chemicals. |
| - Mr. Portoff, Head of Bayer China Ltd. openly admitted that Ministry of Chemicals gave them a lot of support. |
| - Bayer has established a joint venture with the Ministry of Health. Trust between the two parties enables negotiation on new project possible. |

1. The mutual adaptation of unique Chinese cultural elements by the foreign and the Chinese parties e.g. guanxi, face, reciprocity, rengxing and trust by the foreign and the Chinese parties;
2. The foreign party’s Problem Solving Attitude (PSA) in the joint venture negotiation project.
The evidence of these components’ operations was revealed in the case study body. This section is to reveal their importance in the joint venture negotiation process. The model in figure 3.5 and 3.6 of chapter 3 predicted that these components have strong influence throughout the joint venture negotiation process.

The allocation of these ratings follows exactly the same rules i.e. the quantitative and qualitative aspects of the evidence that the author of this thesis specified in the IBM case. As shown on figure 4.23, Bayer put a lot of effort in handling these cultural elements. All elements obtain a strong influence rating except the Renqing element that obtains a moderate rating. There is only one type of evidence i.e. Bayer sponsoring Chinese negotiation team members’ children to Germany to receive education. It should be awarded with a weak influence rating in term of quantitative aspect alone. However, taking the qualitative aspect into consideration, it should be upgraded to a moderate rating because Bayer’s action exerted immediate help on their progress of negotiation.

Figure 4.24 below shows the evidence of Bayer Problem Solving Attitude in negotiating with their joint venture partners. The information collection and the information exchange are perceived to have a strong influence on Bayer negotiation process with their Chinese partners because they allowed them to carefully match their expectations with the PRC’s requirements. As Dr. Jur. Markus Arnold admitted: “we try to match our resources with their expectation...But it is not the case all the time!”

Figure 4.24  Bayer Problem Solving Attitude (PSA) in Chinese joint venture negotiation

| Predicted level of information collection influence on joint venture negotiation : strong |
| Evidence of information collection influence : strong |
| • Bayer searched for potential partners from MOFTEC and the Ministry of Chemicals. In addition, they also studied the market closely and matched the market requirements with their production requirements in China. |
| • Bayer studied the background of their PRC parties very carefully. |
| • Bayer visited their potential production plants to obtain on-site information. |
| • Bayer used outside consultant to conduct due diligence assignment upon analysing the information given by their PRC counterparts. |

| Predicted level of information exchange influence on joint venture negotiation : strong |
| Evidence of information exchange influence : strong |
| • Bayer mainly gave public information and their expectation to their Chinese counterparts. |
| • Through careful matching and information exchange, Bayer searched for a partner for a joint venture project. |

Joint venture outcome

When asked about the joint venture outcomes, Dr. Jur. Markus Arnold and Ms Chew were highly satisfied with the market penetration, future investment intention and learning experience and were
moderately satisfied with the profit level, management experience, product sourcing, and credibility and reputation in the Chinese market. The evaluations on these outcomes are briefly discussed below.

According to JV chronological record in figure 4.19, Bayer has been approaching the Chinese very aggressively but cautiously. They have been very cautious to evaluate the legal environment and to learn how to deal with the bureaucratic red tape in China. Joining a highly potential market rather late, however, drove them to respond to investment opportunities quickly because of potential competition and the moderate encouragement emanating from the technology environment.

The chronological record on figure 4.19 also shows that their first joint venture only started its operation in March 1996 and the newest joint venture will not be operational until early 1998. Given that the average sizes of these joint ventures are US$ 22 million as mentioned by Dr. Jur. Markus Arnold that are relatively large, the expectation of Bayer to have net profit in about four to eight years is not unreasonable. Therefore, the profit satisfaction rating for these joint ventures should be weak because of the short-term pressure on financial resources and time of picking up sales! However, the profit potential in the Chinese market future is excellent. Mr. Tim J. Hearn, president of Asia Pacific, Exxon concurred: “while there are still several logistical challenges to overcome, notably in setting up financial arrangement, in general, we feel the opportunities in China are excellent.”\textsuperscript{40} The profit rating must be upgraded to moderate in medium to long term.

Bayer’s penetration into the Chinese market is excellent. Their signing of the comprehensive agreement with the Ministry of Chemicals served as a co-operative platform to participate in the Chinese market. They have set up 10 joint ventures of which 6 are with the Ministry of Chemicals. The excellent guanxi with the Ministry of Chemicals have been rendering their good support to Bayer future joint venture establishment. Moreover, Bayer’s speedy entering into all major segments of the chemical industry indicates their penetration is effective! All these demonstrate a high satisfaction rating for this dimension.

As mentioned by Dr. Jur. Markus Arnold and Ms Chew, Bayer is satisfied with their management experience in China because the new generation of Chinese managers are well educated and well prepared to accept challenging work which should warrant a high satisfaction rating in this dimension. However, evidence indicates that finding the qualified managers is a problem. Charles O. Holliday, president of DuPont Asia/Pacific concurred in an interview with Chemical Week in 1995. “The people in China are generally very well educated but not ready for the kind of jobs we are offering.” The competition for qualified staff from foreign joint ventures is also reducing the number of candidates available. “Three years ago, we were getting 100 applicants for each available position. That has fallen to 20,” he said.\textsuperscript{41} A Bayer country manager admitted that recruitment exercise is a “cloak-and-dagger affair” simply because almost none of the candidate has a home telephone. “Many executives work at cubicles in their current places of employment. They don’t have private offices, so
Chapter 4: Case summary

they can’t suddenly start speaking English or another Chinese dialect without attracting attention. The difficulty in recruiting qualified staff hinder Bayer’s market development to some extent. Hence, the high satisfaction rating must be downgraded to a moderate rating for this dimension.

Bayer imported raw materials from overseas for almost all their joint ventures in China that may hinder their market development from a logistic viewpoint. Recent evidence indicates that some advancement has been achieved in procuring materials in China. For example, they could find suitable materials that exist in China for their Jinling Polyurethane joint venture. Nevertheless, the prices quoted by MOFTEC are usually not competitive, according to Dr. Jur. Markus Arnold, when compared to imported materials that impose difficulties in local sourcing activities. The local sourcing difficulty warrants a weak satisfaction rating. However, further opening up of the Chinese economy and China’s determination of joining the World Trade Organisation will pressurise local Chinese producers to make better products at more competitive prices in order to join the international community. Therefore, Bayer’s purchasing mode will change from import to domestic oriented hopefully in not far away future. In this sense, the weak satisfaction level must be upgraded to moderate satisfaction level.

According to Dr. Jur. Markus Arnold, Bayer’s products are mainly used in other industrial production process and therefore their credibility and reputation in the consumer markets are minimal. However, their long history in the industrial market has earned them good credibility and reputation. Also, aggressive competition in this market diluted customer loyalty. In this sense, a moderate rating must be given to this dimension.

Bayer’s future investment intention is very high. For example, current negotiations include a polycarbonate, an agricultural insecticide, an animal health products and a citic acid joint ventures. They have also signed a letter of intent for a US$ 100 million synthetic rubber project with Sinopec Shanghai Gao-Qiao Petrochemical Corporation. These massive investments warrant a high satisfaction rating in this dimension.

The learning experience of Bayer in China has been pleasant, according to Dr. Jur. Markus Arnold. They have been negotiating with the Chinese of different cultural background. Cultural difference poses challenge which requires superior people management skills. Also, patience is an important factor in China and doing business in China cannot be rushed. Foreign investors must manage these elements very carefully to have a successful experience in China. The satisfaction rating must be high in this dimension.
Figure 4.25 Satisfaction of joint venture outcome in China

Profit satisfaction level: moderate
- Most of their joint ventures have only been in operation since November 1996 and therefore profit has not been recognised.
- They expected to have a profit in about 4 to 8 years that is reasonable for relatively large-scale projects.
- Comments from other experts within the industry show that the future profit for this industry is excellent.

Market penetration satisfaction level: high
- The signing of a comprehensive agreement with the Ministry of Chemicals served as a co-operative platform of Bayer’s participation in the Chinese market.
- Bayer’s excellent guanxi with the Ministry of Chemicals gave them strong support in finding appropriate parties and hence distribution channels in the Chinese market.
- Bayer has been speedily entering into every segment of the chemical industry indicated that their penetrations have been excellent.

Management experience satisfaction level: moderate
- The new generation of Chinese managers is well educated and well prepares to accept challenging works that is beneficial to the growth of Bayer in China.
- Recruiting qualified staffs have been difficult.

Product sourcing satisfaction level: moderate
- Bayer employs materials made in China and imported.
- The price of locally sourced product quoted by MOFTEC was high that hindered their Bayer’s sourcing activities in China.
- Further opening up of the Chinese economy and China’s determination to join the WTO will force domestic producers to make better products at more competitive prices in order to join the international community.

Credibility and reputation satisfaction level: moderate
- Bayer’s credibility and reputation in the industrial market is excellent because of their historical record in this market.
- Aggressive competition diluted customer loyalty in this market.

Future investment intention satisfaction level: high
- Future investment intention is high. Current JV negotiations include a polycarbonate, an agricultural insecticides project, an animal health products and a citic acid joint ventures.
- They also signed a letter of intent to form a synthetic rubber joint venture with Gao-0iao with investment of up to US$ 100 million.

Learning experience satisfaction level: high
- Doing business in China needs a lot of patience.
- Cultural elements must be carefully managed.

4.4.3 Conclusion

There is strong evidence to show that Bayer Joint Venture negotiation in China follows the process proposed on figures 3.5 and 3.6.
Environment

As discussed, the economic conditions in China exert a strong encouragement on Bayer's negotiation in China. At macro level, the internal demand for chemical products in the Chinese computer market is a driving force. At micro level, the specific growth in individual cities and the intense competitive activities became the major considerations in developing the Chinese market.

The political/legal environment exerts a moderate encouragement on Bayer joint venture negotiation in China. In saying that, the stable political environment alone culminated in a strong encouragement to IBM's development in China. However, the political/legal rating is downgraded to a moderate encouragement because of the deferment of negotiation due to the Chinese bureaucratic attitude.

The technology environment exerts a strong encouragement to IBM's development in China. This strong encouragement rating, however, is downgraded to moderate encouragement when the competitive forces and the MOFTEC's bureaucratic attitude were taking into account.

Organisational constraints

Bayer was classified as a strategic business unit because they have freedom to make a lot of decisions on their joint venture negotiation with their Chinese counterparts. For example, Bayer corporate head office in Germany has not strongly influenced Bayer joint venture negotiation in China except on the items of technology transfer and investment amount. The corporate office only exerted weak influence on other decisions i.e. dividend arrangement, plant specifications, life span, plant specification and board representation. They have not been involved in decisions such as expatriates' expenses and labour allowances.

Joint venture negotiation strategies and process

The analyses in this section show that Bayer has been approaching the Chinese market in a prudent stage-wise process. As indicated on figure 4.22, Bayer progressed very slowly in every individual stage. The resolution of differences required numerous interactions and effort between Bayer and their Chinese counterparts. But effort was paid off when mutual understanding was established and terms on the contract remained unchanged after it had been signed.

Joint venture negotiation pillar

All the five Chinese cultural elements have a strong influence throughout the joint venture negotiation process. On the contrary, Bayer negotiators spent huge effort to collect information regarding the Chinese environmental influences and their joint venture partners. They also exchanged information with their Chinese counterparts and utilised the information to match their resources with the Chinese
firms' expectation. In summary, Bayer's negotiators equipped themselves with a problem-solving attitude (PSA).

**Joint venture outcome**

Bayer had a high satisfaction level on market penetration, future investment intention, and learning experience in the PRC market. However, they only experienced moderate satisfaction on the product other dimensions.

The Bayer case was a "whole" study on the joint venture negotiation model from a foreign perspective in a sense that it demonstrated the importance of the environment influences on Bayer's joint venture negotiation in China. The corporate office perception on the Chinese market potential also determine their business mode of operation in China which exert different level of influence on the negotiators. The importance of the joint venture negotiation pillar functioned throughout the negotiation process that consists of the unique cultural elements, the problem-solving attitude was also demonstrated. In fact, the whole case illustrated that a cross-cultural joint venture negotiation in a Chinese context must be approached in a holistic nature. The company must evaluate the environmental context in a specific country i.e. China. The specific environment and management perception on that market determines the influence that the corporate head office exerts on their negotiators. The negotiators must appreciate the unique culture and process with problem-solving attitude (PSA) when negotiating with their counterparts throughout the negotiation process. In the case of China, it is a five-stage model that is determined by its bureaucratic legal system. The case also demonstrated that successful joint venture negotiation does not necessary mean that a foreign firm will highly satisfied with the result. For example, Bayer is only moderately satisfied with the profit level, management experience, product sourcing, and credibility and reputation.

In summary, the Bayer joint venture negotiation process in China is identical to the model proposed in figure 3.5 and 3.6 in chapter 3.

**4.5 FIRST PACIFIC ASIA LINK LTD.**

"It is vital to find a good partner and we found the China Merchant Holding!"

- Mr. Steward Lee- Vice President, First Pacific Asia link Ltd.⁴

⁴ The preparation of this case was based on an interview with Mr. Steward K.C. Lee, Vice President of First Pacific Asia Link Ltd. and articles cited at the reference of this case.
4.5.1 Background

Asia Link Ltd is a subsidiary of a highly profitable company First Pacific Ltd. It is controlled by the Indonesia’s Salim family and it is probably the richest overseas Chinese clan in Southeast Asia. They recorded sales of US$ 7.03 billion at the end of 1996 with a total employment of 52,800. Through merger and acquisition, First Pacific Group emerges as a Trans-Asia conglomerate. Their core business focus is on four main areas: 1) marketing and distribution, 2) property services, 3) telecommunication, and 4) finance.

In the late 1970’s, the key member of the Salim family, Mr. Liem Sioe Liong (Indonesian name: Soedono Salim) recruited Mr. Manuel Pangilinan, a young investment banker then working for American Express Bank, to set up a Hong Kong-based investment arm for the family business. In 1981, Pangilinan bought a tiny finance company for US$ 1.5 million. This small business entity has been expanding ever since and became the First Pacific Co. Ltd. Their strategy has been to invest in products and services with strong or dominant market positions in high-growth Asia-Pacific economies. In 1988, Asia Link that was 60% owned by First Pacific acquired the cellular phone operators China Telephone for US $ 50 million.

Asia Link is heavily involved in regional telecommunication projects. They have established an Asian telecommunications business focused on Greater China that includes Hong Kong, Taiwan and China’s nearby coastal provinces of Guangdong and Fujian. Asia Link’s subsidiary in Hong Kong, Pacific Link has licenses to operate mobile phone network on analogue, GSM and PCS platforms. However, all analogue network users will be eventually shifted to use the GSM and PCS networks when the analogue network becomes redundant in the year 2000. Its rapid development attracted attention of Hong Kong Telecom. It was subsequently sold to Hong Kong Telecom CSL Mobile in January 1998 to boost First Pacific Group’s financial position after the author of this thesis finished conducting interview with Mr. Steward Lee.

This case is concerned with Asia Link’s negotiation experience for their joint venture in Shenzhen, which is close to Hong Kong and located within the Guangdong province.

Because the PRC government imposes severe restriction on infra-structure projects such as telecommunication which make equity joint venture in this industry impossible, co-operative joint venture is the only entry method for Asia Link to participate in this market. Presently, they have two digital cellular mobile phone service-network co-operative joint ventures in China, one in Shenzhen and the other one in Fujian province, both on the GSM platform. If the situation allows, Asia Link attempts to hold controlling interest. For example, in their Shenzhen Network, they are holding a 60% interest and their joint venture partner China Merchant Holding is sharing 40% and supplies
capital and technical expertise to China Unicom Shenzhen, which operates the network under license from its parent, China Unicom Beijing.

They have another co-operative joint venture in Fujian in which they have a 25% interest. This venture is providing financial and technical assistance to China Unicom Fujian. However, the following joint venture negotiation experience refers to their joint venture in Shenzhen.

4.5.2 Within case analyses

The data provided by Asia Link suggest that their joint venture negotiation experience is highly compliant with the joint venture negotiation model in figures 3.5 and 3.6 in chapter 3. In the following section the eight research questions listed at the beginning of this appendix will be investigated to give a general conclusion on Asia Link joint venture negotiation in China.

Environmental influence on joint venture negotiation

When asked about questions related to environmental influence on the negotiation process, the strategic context forces mentioned by Hunger and Wheelen (1993) are important considerations when they negotiated joint venture projects in China. In this section, only the economic, legal and technology context are discussed, the cultural context will be discussed in a later section as mentioned in the comprehensive negotiation model on figure 3.5 and 3.6.

Economic Influence

The transition from a planned economy to a market economy with socialistic features provides enormous opportunity to telecommunication development in the Chinese market.
Figure 4.26  Chinese Telecommunications (Cellular) Market Data

<table>
<thead>
<tr>
<th></th>
<th>1994</th>
<th>1995</th>
<th>1996</th>
<th>As of May 1997 (5 months)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Chinese market</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Chinese population (in mil)</td>
<td>1,198</td>
<td>1,211</td>
<td>1,224</td>
<td>N/A</td>
</tr>
<tr>
<td>GDP per capita (RMB)</td>
<td>3,903</td>
<td>4,829</td>
<td>5,539</td>
<td>N/A</td>
</tr>
<tr>
<td>GDP per capita growth</td>
<td>N/A</td>
<td>23.7%</td>
<td>14.7%</td>
<td>N/A</td>
</tr>
<tr>
<td>Total Market Cellular subscribers (in mil)</td>
<td>1.57</td>
<td>3.67</td>
<td>6.95</td>
<td>9.38</td>
</tr>
<tr>
<td><strong>Total Growth Rate</strong></td>
<td>N/A</td>
<td>133.7%</td>
<td>89.4%</td>
<td>N/A</td>
</tr>
<tr>
<td><strong>Total Market penetration rate</strong></td>
<td>0.13</td>
<td>0.31</td>
<td>0.57</td>
<td>N/A</td>
</tr>
</tbody>
</table>

| **Guangdong Province**    |       |       |       |                         |
| Population (in mil)       | 67    | 68    | 69    | 70                      |
| Cellular subscribers (in thousand) | 484   | 1,008 | 1,568 | 1,991                  |
| Growth Rate               | N/A   | 108%  | 55.6% | N/A                     |
| Market penetration rate   | 0.72% | 1.08% | 2.27% | N/A                     |
| Market Revenue (RMB in mil) | 396  | 653   | 782   | N/A                     |

| **Share of the total Chinese market** | 30.8% | 27.5% | 22.6% | N/A |

Source: China Telecom (Hong Kong) Limited Global Offering Prospectus

As shown in figure 4.26, the total telecommunication market in China has been growing at an annual rate of at least 90% for a 3 year period ending 1996 which has been much higher than the growth in GDP per capita. It is the third largest market in the world after the U.S. and Japan. This is attributable to the fact that the Chinese market started from a small market base with a huge population; the market took off at a phenomenal growth rate. However, the total market penetration rate has been lower than other developing countries. In other words, this market has enormous growth opportunity.

Shenzhen, a Special Economic Zone (SEZ), belongs to Guangdong Province in which the Asia Link's joint venture is situated. Economic analysis, therefore, must be conducted on a provincial basis to reflect business opportunity to extend the telecommunication network from a domestic to a provincial basis.

Guangdong housed 5.6% of the Chinese population but shared 22.6% of the cellular mobile phone market that generated 782 million RMB in 1996. Its outstanding performance in sharing the cellular mobile market can be attributable to four factors:

- The contribution from the foreign business enterprises,
- The replication of the Hong Kong lifestyle to the Chinese in Guangdong in general,
- The increase in income level in Guangdong, and
- Intense competition in the Guangdong province.
First, Guangdong has been a strategic foreign investment location. It utilised US$ 47.5 billions or roughly 24.7% of the national foreign investment in 1992. Using Hong Kong as a springboard, a large number of foreign enterprises have established their joint venture operations in Guangdong province. The executives, together with managers of State Owned Enterprises and high-level government officials create substantial demand for mobile phone service.

Second, the proximity of Guangdong province to Hong Kong enables their people to receive Hong Kong television and radio programs. They learn the Hong Kong life style of which mobile phone is a dominant communication tools. Guangdong people’s desire for a modern life style in general have been transformed by telecommunication marketers culminating in a huge market potential for mobile phone services.

Third, the huge market potential has become a huge market when the people in Guangdong became more affluent because of increased industrial productivity. In fact, Guangdong province recorded the highest industrial output when compared to other major provinces and capital cities in 1992. The improvement in economic environment encourages people in Guangdong to look for mobile phones to satisfy their communication requirements and their social needs.

Finally, intense competition is also a contributing factor to the growth of the telecommunication market for mobile phone in Guangdong. The Chinese mobile phone market has been monopolised by China Telecom until December 1993 when the State Council approved the second operator, China Unicom. China Unicom is supervised by the Ministries of Railroads, Electronics and Electric Power and started participating in the Guangdong market in July 1995. Competition reduced prices of a mobile phone from an average of RMB 15,000 to an average of RMB 5,000 in 1997. The connection fees and service charge for mobile phone have also been reduced accordingly. The reduction of mobile phone prices increases people’s affordability to buy them. The continued extension of China Unicom’s mobile network plus the possibility of approval for more mobile network operators by the State Council will further intensify this competition which puts pressure on price.

These four factors increase the penetration rate of mobiles in Guangdong province to 2.27% in 1996 but it is still much lower than the 25.9% penetration rate in Hong Kong in 1997 which implies that there is still a huge demand to be satisfied. A report predicts that there will be 20 million mobile phone users in China by the year 2000.

In summary, Asia Link, as a technology consultant and capital provider to the second telecommunication operator China Unicom will benefit from their continue expansion of a mobile

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5 Rmb 1 is approx. equal to HK$ 0.8.
network. Also, the telecommunication market for mobile phones will continue to grow in general and in some prosperous areas such as Guangdong province in particular. Four factors contribute to growth, 1) strong demand derived from the needs of foreign business executives, managers of State-Owned Enterprises and high level government officials, 2) Guangdong people's imitation of Hong Kong people's lifestyle, 3) the general improvement in living standard in China and 4) intense competition in the Chinese communication market. These four factors will exert a very strong encouragement on Asia Link's venture in the Chinese market.

Political/legal environment

The political situation in China has been very stable after Deng's visit to Southern China at the end of 1992. Political uncertainty has not been a concern for Asia Link because they have not been allowed to operate in the Chinese market until China Unicom's operation was approved at the end of 1993 and Asia Link acted as their technology consultant and capital provider. Therefore, the stable political situation is a positive factor to Asia Link's development in the Chinese market.

On the other hand, the legal environment in the telecommunication industry has negative impacts on Asia Link's operations in China. The Ministry of Posts and Telecommunications (MPT), under the leadership of the State Council, directly or indirectly regulates entry into the PRC telecommunications industry, scope of permissible business, interconnection and transmission line arrangements, technology and equipment standards, capital investment priorities and other aspects of the telecommunications industry. These regulations impose threats on China Unicom, Asia Link's major buyers on business dimensions such as responding to market conditions, competitions, or changes in cost structure which put pressure on Asia Link's own operation conditions and cost structures. If the present market growth continues and China is seeking entry into the World Trade Organisation (WTO), these barriers within the telecommunication market are highly likely to be reduced to allow more players in this market. Competition will intensify which puts a pressure on cost restructuring and hence a downward trend on price.

The telecommunication tariffs are subject to regulation by the State Planning Commission (SPC), the Ministry of Posts and Telecommunications (MPT), various Price Bureaux and Provincal Posts and Telecommunications Administrators (PTA). Uncertainties will certainly arise when these government bodies change the tariff policy and rate. They pose a threat to Asia Link's operations in Guangdong Province. Reduction in price control level or de-regulation on price will exert financial pressure on the whole telecommunication industry that will affect Asia Link as a telecommunication supplier.

The rapid development in the telecommunication market forces the Ministry of Posts and Telecommunications (MPT), under the supervision of the State Council, to prepare a draft of the
telecommunications Law\textsuperscript{xxiii} which will be the source of a regulatory framework if the law becomes statute. This status should benefit the telecommunications industry as a whole but exert pressure on individual telecommunication operators and suppliers to re-organise their marketing and other logistic activities to cater for the change in the regulatory framework. Asia Link will be surely affected by this coming statute.

As mentioned in the introductory section of this case, the co-operative joint venture is the only mode that Asia Link can participate in the restricted Chinese communication market. In fact, the partnership relationship is inter-dependent. Asia Link’s partner, China Merchant Ltd., requires their technology and capital and they want China Merchant’s help to cut through all the bureaucratic red tape on establishing this joint venture. This inter-dependent relationship increased China Merchant’s bargaining power to oversee the venture’s operation because of their acquaintance of the bureaucratic and legal framework and limits Asia Link’s participation in supervising the daily operation of this venture even through Asia Link is holding majority share of this venture.

In summary, Asia Link is operating in a stable political environment that exerts a \textit{strong encouragement} on their investment activities. However, they are also facing uncertainties emanating from the Chinese legal framework. First, the entry barriers may be reduced and the Ministry of Posts and Telecommunications (MPT) may alter the operating conditions. Second, possible change in tariff policy and rate by various authorities may exert pressure on financial arrangements of Asia Link. Finally, the possible adoption of a telecommunication law may change the rule of the game, which affect Asia Link’s marketing and logistic activities. These three uncertainties in the legal framework certainly exert weak \textit{encouragement} on Asia Link’s operations in China. In addition, the absolute dominance of the China Merchant Group within the Chinese bureaucratic system may limit Asia Link’s control in the joint venture. As a result, the \textit{strong encouragement} in the political system is downgraded to a \textit{moderate encouragement} in the political/legal framework.

\textit{Technological Environment}

The telecommunication market is driven by heavy investment in technology. The migration from analogue\textsuperscript{6} system to GSM\textsuperscript{7} and PCS\textsuperscript{8} networks in Hong Kong coincided with the reinforcement of analogue and GSM networks by telecom operators. For example, China Telecom is anticipated to provide 5 million 900 MHz analogue, 3 million GSM digital and 2 million trunk mobile subscribers and China Unicom is expected to have the capacity for 3 million GSM subscribers by the end of year 2000.\textsuperscript{xxiii} If the international product life cycle for technology holds for telecommunication industry,

\textsuperscript{6} Analogue - communications by transmission of continuously varying representations of the input signal, as compared to binary coding of words in digital transmission.

\textsuperscript{7} GSM- binary coding of words in digital transmission.

\textsuperscript{8} PCS- binary coding of words in digital transmission but operates at high frequency.
the Chinese telecommunication market is at the growth stage of its life cycle based on the figures provided in figure 4.26. Mobile network works on analogue and trunk technology will eventually become obsolete and the market will operate on the more advance GSM and PCS platform.

As mentioned in the introductory section, Asia Link holds both GSM and PCS technologies and licenses. Therefore, they have a competitive advantage and experience to prepare for the future technological challenge in the Chinese telecommunication market. However, this competitive advantage must be sustained with a tremendous effort because of increase activities from other competitors. For example, Cable and Wireless and the Ministry of Posts and Telecommunications have signed an agreement on 6th June 1997 to prepare Cable and Wireless to participate in the Chinese market.\textsuperscript{xxxiv} Other network suppliers such as Nokia and Ericsson are also active competitors in the Chinese market.

In summary, the Chinese telecommunication market is at the growth stage of its life cycle. It is now operated on the analogue and GSM and the more outdated trunk networks. The overall network capacity will grow in the near future. However, the trunk and analogue technology platforms will be replaced by the more advance GSM and PCS technologies in the longer term. Asia Link, as an experienced analogue, GSM and PCS telecommunication operator in Hong Kong and will benefit from the anticipated growth in the Chinese market. Therefore, a strong encouragement is granted to Asia Link in their participation from a technological viewpoint. However, taking into consideration that technological competition in this market has been intense, the strong encouragement rating must be downgraded to a moderate encouragement level to reflect pressure coming from competition.

The environmental influence on Asia Link’s joint venture negotiation in China can be found in figure 4.27.
Economic environment

*strong encouragement*

- High economic growth enables China Unicom continued expansion of their network that will benefit Asia Link’s development in China.
- Telecommunication in China will continue to grow in general and in some prosperous areas in particular.
- Growth in domestic demand within the Guangdong province directed Asia Link to enter this market.
- Intense competition in the Chinese communication market encouraged Asia Link’s further expansion in the Chinese market.

Political/legal environment

*moderate encouragement*

- Stable political environment is a positive sign in the telecommunication market.
- Uncertain legal environment which come from three areas: 1) the entry barrier into the market may be reduced and the operating conditions may be altered by the Ministry of Posts and Telecommunications (MPT); 2) possible change in tariff policy and rates by various authorities may exert pressure on Asia Link’s financial arrangements; & 3) the adoption of telecommunication laws may change the rules of the game and change Asia Link’s marketing and logistic activities.
- The absolute dominance of China Merchant Group within the Chinese bureaucratic system may limit Asia Link’s control in the joint venture.

Technological environment

*moderate encouragement*

- Telecommunication market is at the growth stage of its life cycle and this pattern favour in technology contribution.
- The future growth in the market is based on the GSM and PCS network. Asia Link, as an experienced operator of both networks in Hong Kong, will be benefited from this technological advantage.
- Technology competition has been intense in this market.

Organisational constraints

Asia Link’s Executive Committee at the head office in Hong Kong has been totally bureaucratic in making decision in transfer of technology and they had very strong influence in making decisions on amount of investment, dividend payment, life span of the contract and board representation. The negotiation team was very autonomous in making other decisions such as expatriates’ expenses and labour allowance as is listed figure 4.28.
**Figure 4.28 Extend of influence from Corporate Head Office**

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>Extend of influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment amount</td>
<td>Corporate Head Office</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>strong influence</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>strong influence</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>strong influence</td>
</tr>
<tr>
<td>Board representation</td>
<td>N/A</td>
</tr>
<tr>
<td>Expatriates’ expenses</td>
<td>strong influence</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no influence</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>no influence</td>
</tr>
</tbody>
</table>

Figure 4.28 shows that the Executive Committee tightly controlled all major decisions except the expatriates’ expenses and labour allowances. The expatriates’ expenses were dependent on market rate and the Chinese labour law determines the labour allowance and therefore the Executive Committee may have a limited ability to alter the allowance.

As mentioned in the previous section, there were a lot of uncertainties or risks within the legal environment when Asia Link established this joint venture. The heavy involvement of this Executive Committee was, therefore, to ensure the risk factors were carefully monitored. The strong encouragement rating of the economic environment also implied that Asia Link’s interest in this venture should be protected and the future potential of this venture must be fully explored. In this sense, Asia Link negotiation team acted as a link between their corporate head office and their Chinese counterpart. How the negotiation team went through the negotiation process will be discussed in next section.
Joint venture negotiation strategies and process

Figure 4.29  Asia Link joint venture negotiation in China- a comparison

<table>
<thead>
<tr>
<th>Ideal Pre-negotiation stage</th>
<th>Asia Link Pre-negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organisation Objectives</strong></td>
<td><strong>Organisation Objectives</strong></td>
</tr>
<tr>
<td>• Identification of PRC bureaucratic structure</td>
<td>• Identification of PRC bureaucratic structure</td>
</tr>
<tr>
<td>• Identification of common marketing and financial goals</td>
<td>• identification of common marketing and financial goals</td>
</tr>
<tr>
<td><strong>Personal Objective</strong></td>
<td><strong>Personal Objective</strong></td>
</tr>
<tr>
<td>• Identification of PRC negotiators’ goals</td>
<td>• identification of PRC negotiators’ goals</td>
</tr>
<tr>
<td><strong>Etiquette</strong></td>
<td><strong>Etiquette</strong></td>
</tr>
<tr>
<td>• eating and drinking</td>
<td>• attend informal meeting</td>
</tr>
</tbody>
</table>

Degree of matching: Strong

<table>
<thead>
<tr>
<th>Negotiation stage Strategies</th>
<th>Negotiation stage Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• collaborating</td>
<td>• collaborating</td>
</tr>
<tr>
<td>• compromising</td>
<td>• compromising</td>
</tr>
<tr>
<td>• perceptions on PRC negotiators’ strategies and respond</td>
<td>• perceptions on PRC negotiators’ strategies and respond</td>
</tr>
<tr>
<td>• patience</td>
<td>• patience</td>
</tr>
<tr>
<td>• USP</td>
<td>• USP</td>
</tr>
</tbody>
</table>

Degree of matching: Strong

<table>
<thead>
<tr>
<th>Post negotiation stage Strategies</th>
<th>Post negotiation stage Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• closely monitor Chinese economic development</td>
<td>• closely monitor Chinese economic development</td>
</tr>
<tr>
<td>• closely follow own company policies when changing terms</td>
<td>• closely follow own company policies when changing terms</td>
</tr>
<tr>
<td>• patience</td>
<td>• patience</td>
</tr>
</tbody>
</table>

Degree of matching: Strong

<table>
<thead>
<tr>
<th>Contract signing stage Strategies</th>
<th>Contract signing stage Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• closely follow own company’s objectives</td>
<td>• closely follow own company’s objectives</td>
</tr>
<tr>
<td>• closely monitor Chinese economic &amp; political environment</td>
<td>• thoroughly check contract terms against company policies</td>
</tr>
<tr>
<td>• thoroughly check contract terms against company policies</td>
<td>• patience</td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
</tbody>
</table>

Degree of matching: Moderate

<table>
<thead>
<tr>
<th>Post-contract signing stage Strategies</th>
<th>Post-contract signing stage Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>• closely monitor PRC economic development and reflect on the contract</td>
<td>• communicate with PRC government department to obtain implementation license</td>
</tr>
<tr>
<td>• high level negotiation</td>
<td>• patience</td>
</tr>
<tr>
<td>• patience</td>
<td></td>
</tr>
</tbody>
</table>

Degree of matching: weak

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This section is to compare the venture negotiation strategies and their process with the ideal strategies and process produced in figure 3.5 and 3.6 in chapter 3.

The ideal joint venture negotiation process and strategies in figure 3.6 and those of Asia Link are matched in figure 4.29 above. There is a strong matching pattern at the pre-negotiation, the negotiation and the post-negotiation stages.

At the pre-negotiation stage, the only difference is the reliability check on their Chinese partner through a ‘due diligence’ assignment and their method of handling etiquette in China. Besides, the Asia Link’s negotiation team met their Chinese counterparts in restaurants, senior management of both firms also met together on some informal occasions to sort out the structure of the joint venture. In fact, Asia Link was extremely careful in dealing with their Chinese partner and took more precautionary measure than the ideal strategies of the pre-negotiation stage to ensure they chose the right partner.

At the negotiation stage, Asia Link’s staff needed to clarify some important issues before they could proceed to the next run of formal negotiation talk. Mr. Lee pointed out: “they preferred simple and straightforward meetings which may be too simple for us to imagine...therefore we needed to spend some time to clarify their intentions on how to carry out the co-operation in details! Anyhow, we were quite flexible and the discussion was very enlightening.” This indicated that Pacific took more than the ideal strategies at the negotiation stage.

At the post-negotiation stage, Asia Link was more flexible than their American and German counterparts IBM, Otis and Bayer. Besides closely following the company policies, they also closely monitored the Chinese economic development. In saying that, they were more aggressive in responding to the change in market development in the Chinese market. Their responses may be due to the rapid development in the Chinese telecommunication market and the uncertainties that the author identified in the environmental analyses sections. Also, by helping their Chinese partner to solve problems, they could establish a positive image and hence obtain favourable treatment from relevant government authorities in future joint venture development.

The matching of the contract signing stage of Asia Link with the ideal case only exhibits a moderate rating. Both parties signed the contract without further referencing to the Chinese economic development. The acts were consistent with their mutual understanding attitude that the co-operation was on a long-term basis and based on good faith. However, this seemed to contradict Asia Link’s thorough check of the contract terms against company policies. The contradiction reflected Asia Link’s flexible in co-operative attitudes and their inflexibility in dealing with legal implication of co-operation.
At the post contract signing stage, the matching of the ideal and the actual strategies is very weak. The only matching element is patience. Asia Link and their Chinese partner did not go to higher level negotiation and monitor the economic environment except communicating with government departments to obtain a business license. The fact is that senior management of both parties have shared common vision and have constructed the framework for this joint venture co-operation from the very beginning which made high level negotiation unnecessary because mutual understanding has been obtained. This mutual understanding, in turn, led them to discuss all changes in private meetings rather than putting them on the contract. Also, their similarity in cultural background helped them to perceive the sincerity of each other and made high level negotiation and monitoring the Chinese environment unnecessary.

The analyses in this section show that Asia Link’s negotiation process has been approaching the Chinese market in a stage-wise fashion. Their strategies were strongly matched with the ideal strategies at the pre-negotiation, the negotiation stage and the post-negotiation stage. The degrees of matching are only moderate and weak at the contract signing and the post contract signing stage respectively.

This section discussed the strategies and process of the joint venture negotiation. The next section is to discuss the supportive elements in the negotiation process. As mentioned, the similar culture of both parties played an important role in the joint venture negotiation process that will be thoroughly discussed in the next section.

**Joint venture negotiation pillar**

According to figure 3.6 in chapter 3, joint venture negotiation pillar consists of two components:
Cultural influence on Asia Link’s joint venture negotiation in China

Cultural components

Predicted *Guanshi* influence on joint venture negotiation process: strong
Evidence of *guanshi* influence: strong
- Asia Link has established good *guanshi* with various provincial government.
- Asia Link exercised their *guanshi* strategies at two levels i.e. the senior management and the negotiation team levels. *Guanshi* between the senior management team is an institutional support i.e. they imposed negotiation framework mainly at private meetings. *Guanshi* can also be cited at negotiation team level, i.e. Asia Link maintained a very good friendship with their Chinese counterparts.
- Inter company visits were evidenced to establish *guanshi* in general.
- Long-term relationship was emphasised at every meeting.

Predicted *Face* influence on joint venture negotiation process: strong
Evidence of face influence: strong
- Asia Link presented gifts to their Chinese counterparts to give face.
- Asia Link never had a face to face conflict with their Chinese counterparts.
- They resolved a lot of differences at private meetings.

Predicted *Reciprocity* influence on the joint venture negotiation process: strong
Evidence of reciprocity influence: strong
- Asia Link would visit their Chinese party’s mainland office sometimes later after their Chinese party visited the Hong Kong Office.
- Chinese party did favour to the Hong Kong party by doing most of the procedural work.

Predicted *Renging* influence on the joint venture negotiation process: strong
Evidence of *renging* influence: moderate
- Asia Link provided pocket money (per diem in western term) to their Chinese counterparts when they visited Hong Kong.

Predicted *Trust* influence on the joint venture negotiation process: strong
Evidence of Trust influence: strong
- The two negotiation parties established trust through numerous interactions.
- Both parties reserved the possibility of amending the terms of the contract after it was signed indicated they have established trust on each other that changes were mandatory for the benefit of both companies.

1. The mutual adaptation of unique Chinese cultural elements by the foreign and the Chinese parties e.g. *guanshi*, face, reciprocity, *renging* and trust by the foreign and the Chinese parties;
2. The foreign party’s Problem Solving Attitude (PSA) in the joint venture negotiation project.

The evidence of these components’ operations was revealed in the case study body. This section is to reveal their importance in the joint venture negotiation process. The model in figure 3.5 and 3.6 of chapter 3 predicted that these components have a strong influence throughout the joint venture negotiation process. In fact, Asia Link has put a lot of effort in handling these cultural elements as shown in figure 4.30. These elements are also rated according to the quantitative and qualitative rules that the author specified in the IBM case. As a result, all the elements have strong influence on the negotiation process except the *renging* element that had a moderate influence rating. In term of quantitative aspect, a weak influence rating should be given because there is only one evidence associated with this element. However, taking into consideration that this evidence i.e. giving pocket
money (per diem in western term) to the Chinese when they visited Asia Link’s office had strategic implication; it is upgraded to a moderate rating.

Figure 4.31 below shows the evidence of Asia Link Problem Solving Attitude in negotiating with their joint venture partners. The information collection and the information exchange are perceived to have a strong influence on Asia Link negotiation process with their Chinese partners. This allowed Asia Link to carefully match their requirements with those of China Merchant Group. However, Mr. Lee mentioned that they did not always fulfil PRC’s requirements and the solutions to the issues they raised always ended up midway.

Figure 4.31  Asia Link Problem Solving Attitude (PSA) in Chinese joint venture negotiation

<table>
<thead>
<tr>
<th>Predicted level of information collection influence on joint venture negotiation: strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of information collection influence: strong</td>
</tr>
<tr>
<td>• Asia Link appointed a good Chinese consultant to collect information concerning the Chinese market and their PRC partner.</td>
</tr>
<tr>
<td>• Internal reliability checks on the consultancy report and also was confirmed by their connection in China.</td>
</tr>
<tr>
<td>• ‘Due diligence’ was conducted to ensure they were negotiating with a good Chinese partner.</td>
</tr>
<tr>
<td>• Asia Link visited their Chinese partner to obtain on-site information.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Predicted level of information exchange influence on joint venture negotiation: strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of information exchange influence: strong</td>
</tr>
<tr>
<td>• Both companies exchange information by sharing their companies’ vision and identified differences.</td>
</tr>
<tr>
<td>• Asia Link provided company’s objectives, investment amount, profit expectation etc. through various meetings.</td>
</tr>
<tr>
<td>• Both parties resolved their differences in numerous informal meetings.</td>
</tr>
</tbody>
</table>

This section reveals the influences of the cultural negotiation pillar and the Problem Solving Attitude (PSA) acting upon the joint venture negotiation between Asia Link and China Merchant Group. The satisfaction level of this co-operative joint venture is discussed in next section.

Joint venture outcome

When asked about the joint venture outcomes, Mr. Lee was highly satisfied with the profit, market penetration, future investment intention and learning experience in their joint venture projects in China. He was moderately satisfied with the product sourcing and the credibility and reputation dimensions. However, his satisfaction on the management experience was weak. The satisfactory levels of these outcomes are briefly discussed below.

According to the Chinese telecommunication market data presented on figure 4.26, Asia Link attempted to capture its growth and the opportunities deriving from the de-regulation of the Chinese telecommunication market when the second telecom operator, China Unicom entered the market in 1994. However, the instability in the legal environment led Asia Link to establish the venture in the
form of co-operative joint venture. Deamer (1996) recognises that the co-operative venture is more flexible in the form of shorter contract terms, dividend arrangement and pre-tax earnings. These arrangements allowed Asia Link to recover their investment in the shortest possible time and gave them opportunity to accumulate business experience in China. Coupled with the high growth in the Chinese telecommunication market, the profit coming from this venture has been highly satisfactory. If their guanxi with China Unicom remained good and the market will not be further opened in the future, Asia Link’s profit satisfaction level is definitely high.

Asia Link’s penetration into the telecommunication market is high. Since their market penetration is heavily dependent upon the progress of China Unicom in this market, the tracking of China Unicom’s performance can provide hints to Asia Link’s penetration performance. According to CTC news, China Unicom has recruited 30,000 subscribers in Shenzhen in 1996 that was an exceptionally good performance when it started from a zero base in 1994!\[xxx\] China Unicom is expected to share 30% of the total Chinese market by year 2000 again showing that the penetration of Asia Link into this market will be excellent. In addition, it is China Unicom’s strategy to have long-term co-operation with foreign investors to enjoy the fruits of the Chinese market.\[xxxi\] In these contexts, Asia Link’s joint venture in Chinese will surely share a substantial slice in the growing Chinese market and penetrate the Chinese market more deeply. Therefore, a high satisfaction in this dimension is given.

According to Mr. Lee, the flexibility of in earning profit rendered their loose control in the day to day management in this co-operative joint venture. Mr. Lee favoured to have a ‘direct reporting’ management system reporting the situation of this venture. As Mr. Lee claimed: “we have little control over this venture and what we need is a direct reporting system to tell us what is going on there!” Again, the Chinese partner having a traditional management philosophy means that nepotism, cliques and patronage systems exist in this joint venture.\[xxvii\] The management of this venture should be modernised so that a more professional management structure will be in place, according to Mr. Lee. All the above evidence indicates that Asia Link is marginally satisfied with the management performance of this venture and therefore a weak satisfactory level must be awarded to this dimension.

According to Mr. Lee, most of the materials can be sourced in China that is important to the daily operation of the joint venture. Therefore, a relatively high rating should be given to the sourcing dimension. However, the lack of an effective management system simply cannot cope with the requirements for an effective accounting system and hence cost control in this venture is doubtful. The lack of cost tracking record also made effective sourcing activities difficult. Therefore, the rating for this sourcing dimension must be down graded from a high to a moderate satisfaction level.

In the creditability and reputation dimension, Mr. Lee gave it a moderate rating. Because they have not been in the Chinese market long enough and therefore their creditability and reputation is
relatively moderate. However, their high technology image started building up and therefore, future reputation should be high. In summary, a moderate rating must be given in this dimension.

The future investment intention of Asia Link is very high. The Chinese market is one of the highest growth markets in the global market. Many international telecommunication companies have entered this important market and their investment is increasing. For example, Motorola has signed a contract to provide the nation-wide backbone paging network in China Telecom's eleven Provincial Capital Cities.\textsuperscript{xxxiii} and Cable and Wireless of UK has forged a long-term partnership with China Telecom.\textsuperscript{xxxiv} China Telecom's only competitor, China Unicom also increases their presence in the China market by co-operation with leading telecommunication companies. For example, they have signed a supply contract with Nokia to supply their GSM network needs in Hunan.\textsuperscript{xxv} In addition, China Unicom has obtained approval from the Ministry of Post and Telecommunication to operate their network in 37 cities.\textsuperscript{xxvi} In this context, the satisfaction level of this dimension must be rated as high.

Mr. Lee emphasised that negotiation in China takes time. Investors must be 'patient and not rush' into the market. They also take a very flexible attitude in structuring their joint venture in China. He summed up their experience as "a very enjoyable experience" in China. Therefore, the rating for the learning experience must be rated high.
Figure 4.32  Satisfaction of joint venture outcome in China

Profit satisfaction level: high
- The profit performance for this joint venture has been satisfactory because of the enormous growth in the Chinese market.
- The flexibility of Co-operative joint venture arrangement allowed Asia Link to skim profits from the market quickly.

Market penetration satisfaction level: high
- Market penetration is heavily relied upon the penetration of Unicom mobile network. Unicom recruited 30,000 subscribers in 1996 that was extremely well. Satisfaction level on market penetration is high.
- Unicom attempted to share 30% of the total telecommunication market in China and make Asia Link’s further penetration into the Chinese market possible.
- China Unicom's strategy is to have long term co-operation with foreign investors to share the fruits of the Chinese market.

Management experience satisfaction level: low
- The nature of the co-operative joint venture limited Asia Link’s participation in day to day management of the venture.
- The Chinese management concept needed to be modernised to make a more effective management.
- There is no direct management information system in this joint venture.

Product sourcing satisfaction level: moderate
- An effective accounting system is not in place; cost control measure has not been totally effective.
- Most of the material can be sourced in China.
- Lack of effective cost track records make future procurement difficult.

Credibility and reputation satisfaction level: moderate
- Started building up credibility and reputation in the high tech area of the telecommunication market.
- Not long enough in the Chinese market render low in credibility and reputation.

Future investment intention satisfaction level: high
- High growth in the Chinese market makes investment intention extremely positive.
- Flexible practices of the China Unicom in attracting foreign investment provided a good intention to Asia Link to seek future investment opportunity in China.

Learning experience satisfaction level: high
- Patience is important in the Chinese market.
- Flexibility is an asset when setting up joint ventures in China.

The analyses of satisfaction level in various dimensions are summarised above. The author of this thesis will conclude the case in next section.

4.5.3 Conclusion

There are strong evidence to show that Asia Link's Joint Venture negotiation in China follows the process proposed on figures 3.4 and 4.5.
Environment

As discussed, the economic conditions in China exert strong encouragement on Asia Link’s negotiation in China. At macro level, the growth in the Chinese telecommunication market in general is a driving force. At micro level, the specific growth in individual market such as Guangdong province, the competitive activities and the growth of their service receiver “China Unicom” became their strategic considerations in approaching the Chinese market.

The political/legal environment had a moderate encouragement on Asia Link joint venture negotiation in China. In saying that, the stable political environment alone culminated in a strong encouragement to Asia Link’s development in China. However, the political/legal rating is downgraded to a moderate encouragement because of the uncertainties that emerged within the Chinese legal framework. These uncertainties include, 1) the entry barrier into the telecommunication market may be reduced and the operating conditions may be altered by the Ministry of Posts and Telecommunications (MPT); 2) possible changes in tariff policy and rates by various authorities; and 3) the potential establishment of the telecommunication rules may change the overall legal operating conditions.

Likewise, the technology environment exerts a strong encouragement to Asia Link’s development in China in terms of its potential contributions in GSM and PCS technologies. This strong encouragement rating, however, is downgraded to moderate encouragement when the competitive forces are taking into account because Asia Link is not in an absolute favourable technological environment.

Organisational constraints

Asia Link could not be classified as a strategic business unit because they did not have much freedom to make decisions on their joint venture negotiation with their Chinese counterparts. For example, Asia Link’s executive committee in Hong Kong’s corporate head office has strongly influenced all items except the expatriates’ expenses and labour allowance. The expatriates’ expenses are jointly decided by the both Asia Link negotiators and Chinese counterparts.

Joint venture negotiation strategies and process

The analyses in this section show that Asia Link has been approaching the Chinese market in a prudent stage-wise process. As indicated on figure 4.29, Asia Link progressed very slowly at every stage. The resolution of differences required numerous interactions and effort between Asia Link and their Chinese counterparts. But effort was paid off when mutual understanding was established and terms on the contract remained unchanged after it had been signed.
Joint venture negotiation pillar

All the five Chinese cultural elements have a strong influence throughout the joint venture negotiation process. Asia Link negotiators spent a huge effort to collect information regarding the Chinese environmental influences and their joint venture partners. They also exchanged information with their Chinese counterparts and utilised the information to match their resources with the Chinese firms' expectation. In summary, Asia Link’s negotiators equipped themselves with a problem-solving attitude (PSA).

Joint venture outcome

In summary, Asia Link had a high satisfaction level on the profit, market penetration, future investment intention, and learning experience in the PRC market. However, they only had a moderate satisfaction on the product sourcing and credibility and reputation. It also had a low satisfaction on the management experience dimension.

The Asia Link case was a “whole” study on the joint venture negotiation model from a Western perspective in a sense that it demonstrated the importance of the environment influences on Asia Link’s joint venture negotiation in China. The perception of the executive committee in the corporate head office on the Chinese market situation also determine their business mode of operation in China which exert different level of influence on the negotiators. The importance of the joint venture negotiation pillar functioned throughout the negotiation process that consists of the unique cultural elements and the problem-solving attitude was also demonstrated. In fact, the whole case illustrated that a cross-cultural joint venture negotiation in a Chinese context must be approached in a holistic nature. The company must evaluate the environmental context in a specific country i.e. China. The specific environment and management perception on that market determines the influence that the corporate head office exerting on their negotiators. The negotiators must appreciate the unique culture and process with problem-solving attitude (PSA) when negotiate with their counterparts throughout the negotiation process. In the case of China, it is a five-stage model that is determined by its bureaucratic legal system. The case also demonstrated that successful joint venture negotiation does not necessary mean that a foreign firm will highly satisfy with the result. For example, Asia Link is only moderately satisfied with the product sourcing and credibility and reputation. It had a low satisfaction weighting associated with the management experience as well. That may be due to Asia Link’s inability of perceiving some future management problem at the implementation stage of the joint venture project.

In summary, the Asia Link joint venture negotiation process in China is identical to the model proposed in figure 3.5 and 3.6 in chapter 3.
4.6 KENWAH ENTERPRISES LTD.

"We have promised to give him 5% year end bonus based on the profit generated by this joint venture...This is only a gentleman agreement between us. We did not put it on paper because it is not allowed in the PRC by law!" - Mr. Simon Li, Director of Ken wah Enterprises Ltd.  

4.6.1 Background

Mr. Li was born in Hong Kong. His parents, however, are very traditional Chinese and sent him back to China to receive an education in the early 1980s. His rich knowledge of the Chinese market coupled with the strong financial background of his family indoctrinated them to set up a trading firm in 1987. They mainly imported the raw plant oil from Brazil and re-exported the raw plant oil in bulk to a reputable State Owned Factory in Wuhan, China. This factory then reprocessed the raw oil into edible oil and distributed it to the local and nearby communities within the Wuhan district. This logistic arrangement was simple and profitable. Over the years, they have established a very good guanxi with the Wuhan factory especially with their factory manager through numerous interactions.

In early 1992, the Wuhan factory manager had an argument on the plant operation arrangement with the Party Secretary who was nominated by the Chinese Communist Party (CCP). Normally, his responsibilities were to oversee and to report the factory operations to the respective work unit rather than interfering with the daily operation. The internal politics forced the factory manager to leave the State Owned Factory. The factory manager approached Ken wah and attempted to borrow some initial capital to establish his own processing factory. As Mr. Li recalled: "When he approached us, told us his plan, we supported him. I supposed the main reasons were that firstly we knew his character; secondly we trusted him and finally we have an excellent guanxi with him!" Ken wah initially lent Rmb $ 3 million to this factory manager without guarantee to run his operations. This factory manager, as Ken wah predicted, repaid this debt within six months. This also surprised Mr. Li, as he remarked: "We know he is capable, but we did not know he is that capable." More interestingly, this factory manager accumulated about HK$ 3 millions total assets including land and working capital up to end of 1992. To further expand his manufacturing facility, the factory manager approached them and discussed the possibility of establishing a co-operative joint venture with Ken wah. As a result of that discussion, Ken wah injected HK$ 7 million capital into the existing operating structure and renamed it as "Wuhan Huajie Oil Company Ltd". As a result, it is a 70% (Ken wah) and 30% (PRC) co-operative joint venture and it was officially established in December 1992 which was approximately 3 months after their initial discussion for this joint venture. The estimated sales in 1997 is Rmb $ 1.8 billions and presently they have over 50% of the market share in that region.
4.6.2 Within case analyses

The data provided by Kenwah suggest that their joint venture negotiation experience is highly compliant with the joint venture negotiation model in figures 3.5 and 3.6 in chapter 3. In the following section the eight research questions listed at the beginning of this chapter will be investigated to give a general conclusion on Kenwah venture negotiation in China.

Environmental influence on joint venture negotiation

An evolution of this Chinese joint venture can be found in Figure 4.33. As shown in Figure 4.33, the evolution of this joint venture has been heavily influenced by the prior social ties which Mr. Li established with China. His social ties started; 1) when he studied in China and established a good understanding of Chinese society; 2) when he re-exported his raw oil to a State-Owned Factory in Wuhan and established a good quanxi with their factory manager; 3) when the factory manager borrowed money from Mr. Li to establish his own factor in Wuhan & 4) when Mr. Li established a co-operative joint venture with this factory manager in Wuhan. To sum up, Mr. Li turned his social ties to a business opportunity. In fact, he converted his relationship status with this factory manager from a business associate to old friend and then to a partnership relationship. Throughout the evolution process, Mr. Li obtained understanding of the economic, political/legal, and technology environment that the author of this thesis will discuss below.

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9 The preparation of this case was based on an interview with Mr. Simon Li, Director of Kenwah Enterprises Ltd.

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Mr. Li received his education in China in the early 1980s so that he has a good understanding on the general situation in China.

His rich knowledge in the Chinese market and the strong financial background of his family enable them to establish a trading firm in 1987 and started re-exporting raw oil from Brazil to a Wuhan State-Owned factory in Wuhan.

Because of their business relationship with this Wuhan factory, they established very good guanxi with the manager of this factory.

In the middle of 1992, this factory manager had an argument with the party secretary. He borrowed RMB 3 million without any collateral from Kenwah and set up his own factory in Wuhan.

At the end of 1992, this factory manager repaid the RMB 3 million debt to Kenwah. Meanwhile, he also accumulated HK$ 3 million in fixed and current assets.

Because of the market potential in Wuhan, this factory manager entered into negotiation with Mr. Li of Kenwah to establish a joint venture.

Based on mutual trust, Kenwah agreed to inject HK$ 7 million into the factory and formed a co-operative joint venture with their Chinese partner. Therefore, the factory is now 70% owned by Kenwah.

Because this factory manager has an excellent reputation in the local community, he actually brought all the government officials concerned into their factory for 3 days for the approval process of this venture.

The whole approval process only lasted for three months and the new venture was established at the end of first quarter 1993.

In 1994, this joint venture had an extra-ordinary high profit of RMB 20 million because of a sudden sharp decline in price of raw oil.

Mr. Li estimated that the sales of this joint venture will be around RMB 1.8 billion in 1997 but the profit will not be as good as 1994.

Economic environment

Mr. Li's Chinese educational background enabled him to have a thorough understanding of the Chinese market. As Mr. Li recalled: "Because of my parent's Chinese background, they sent me back to China for my education. When I returned to Hong Kong, we established a trading firm and started re-exporting the raw oil to a State-Owned Factory in Wuhan... the business had been very steady with this factory!"

Exporting to this Wuhan factory also enabled them to collect vast amount of sales data that were crucial to the evolution of their joint venture in Wuhan. As Mr. Li recalled: "During our association with this State-Owned Factory in Wuhan, we have collected vast amount of sales data and economic data... We don't worry so much about investment in that area. We understand the situation in Wuhan and we have confidence and trust in this factory manager... we know what profit he can make if we sell the raw oil to this joint venture at a certain price! And we know the up and down of oil prices in that region!"

In fact, Mr. Li's perception of the market potential within the Wuhan region is absolutely correct. The joint venture had a significant profit of Rmb 20 million in 1994. Market share of this venture is expected to reach 50% and the expected sales is Rmb 1.8 billion in 1997. Based on these data, the
total market size in the Wuhan region is about Rmb 3.6 billion. If the economic condition in Wuhan continues to improve, this joint venture is bound to have good sales. Economy of scale will drive cost down which is a definite competitive advantage of this joint venture.

Besides the general economic condition in Wuhan, local distributors in the Wuhan region also give them a lot of support. Claimed by Mr. Li: "He (the factory manager) is a popular character in that region and people respect him because of his ability...I visited some of his customers and they all have very good relationship with him!"

The above analyses show that the economic environment in the Wuhan region exert a strong encouragement on the establishment of this joint venture. These economic factors were valid but not sufficient criteria for Kenwah to establish a joint venture in China. In fact, economic factors must be in harmony with the political/legal and technology factors that will be discussed in the next section.

Political/legal environment

As shown in figure 4.33, the factory manager repaid Kenwah and proposed an establishment of a co-operative joint venture at the end of 1992 that coincided with Deng’s visit to Southern China. As mentioned in chapter 2, Deng’s visit was a signal of political stability. This stability together with the repayment made by this factory management and the availability of vast amount of sales data strongly encouraged Kenwah to directly invest in China.

Besides the factors mentioned above, two other factors confirmed that Wuhan was a suitable place to invest from a legal point of view. First, Mr. Li was educated in China, and that equipped him with a good understanding of the legal system in China. Second, the factory manager’s excellent guanxi network within that region could help them cut through all the red tape in the complicated Chinese bureaucratic system. In fact, all the complicated procedures could be completed in about eighty days and the joint venture was up and running in about three months. This political/legal context culminated in strong encouragement on Mr. Li’s investment in China.

The above two sections described the economic and political/legal environment surrounding Kenwah’s joint venture establishment in China. The next section is to delineate the technology environment in this case.

Technology environment

Technology transfer is not an issue in Kenwah’s case that partly explains why Kenwah could finalise and put the joint venture into operation in about 80 days. None of the previous four cases could afford to finalise negotiation in that time because technology is one of their main assets and
companies want to protect it. Without technology transfer, a joint venture is relatively simple, and investment is used purely for profit generation. The low technology level in Kenwah’s joint venture also means that labour can be easily employed at very low rates and the operating costs can be maintained at very low level. Low cost together with economy of scale that was identified in the economic environment section put Kenwah in a very competitive situation in Wuhan. The low technology requirement culminates in a strong encouragement on Kenwah to establish their joint venture in China. A summary of Kenwah’s environmental influence can be found in figure 4.34.

<table>
<thead>
<tr>
<th>Economic environment</th>
<th>strong encouragement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mr. Li’s Chinese background and the sales data to the state owned factory indicated that domestic growth was excellent.</td>
<td></td>
</tr>
<tr>
<td>Good relationship with local wholesalers and retailers give Kenwah a lot of support in distributing their oil.</td>
<td></td>
</tr>
<tr>
<td>Economy of scale means Kenwah have lower cost structure that is a competitive advantage in that region.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Political/legal environment</th>
<th>strong encouragement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political environment has been very stable after Deng’s visit to the southern part of China.</td>
<td></td>
</tr>
<tr>
<td>Mr. Li has a good understanding in Chinese legal system because he received his education in China.</td>
<td></td>
</tr>
<tr>
<td>The factory manager’s good guanxi with local officials cut through the bureaucratic red tape in the Chinese legal system.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technological environment</th>
<th>strong encouragement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edible oil can be processed in relatively low technology level. Low investment in technology is a definitive encouragement.</td>
<td></td>
</tr>
<tr>
<td>Employees can easily be recruited in a low-tech industry.</td>
<td></td>
</tr>
</tbody>
</table>

This section describes all the environmental factors surrounding Kenwah’s joint venture in China. Next section is used to analyse the organisational constraints of Kenwah.

Organisational constraints

According to the information provided by Mr. Li in section 5.5.3, Kenwah’s other family members in the Hong Kong head office had very little influence on his decisions. As one of the directors in their family business, he has been largely autonomous in making decisions as listed in figure 4.35. The only decision he needed consent from his family members was the investment amount because it could affect the cash flow of his company. The issues of technology transfer and expatriate expenses were not applicable to Kenwah because processing oil is low in technology level as the author of this
thesis identified in last section, and Kenwah has not sent any personnel to China to manage this joint venture.

**Figure 4.35  Extend of influence from Head Office**

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>Extend of influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment amount</td>
<td>Head Office</td>
</tr>
<tr>
<td></td>
<td>moderate influence</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>weak influence</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>weak influence</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>weak influence</td>
</tr>
<tr>
<td>Board representation</td>
<td>weak influence</td>
</tr>
<tr>
<td>Expatriates’ expenses</td>
<td>N/A</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no influence</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>N/A</td>
</tr>
</tbody>
</table>

The autonomy in making decisions contributed to the speedy negotiation process because of minimal information flow from the negotiator to the head office. In addition, all the environmental factors identified in last section strongly encouraged Kenwah to invest in China which implies investment risk is low in this venture. Low investment risk coupled with effective negotiation that the author of this thesis is going to discuss in the next section is key contributors to the successful negotiation in this venture.
Joint venture negotiation strategies and process

Figure 4.36 Kenwah joint venture negotiation in China - a comparison

<table>
<thead>
<tr>
<th>Ideal Pre-negotiation stage</th>
<th>Kenwah Pre-negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Organisation Objectives</strong></td>
<td><strong>Organisation Objectives</strong></td>
</tr>
<tr>
<td>Identification of PRC bureaucratic structure</td>
<td>identification of common marketing and financial goals</td>
</tr>
<tr>
<td>Identification of common marketing and financial goals</td>
<td>Personal Objective</td>
</tr>
<tr>
<td>Identification of PRC negotiators' goals</td>
<td>identification of PRC negotiators' goals</td>
</tr>
<tr>
<td>Etiquette</td>
<td>Etiquette</td>
</tr>
<tr>
<td>eating and drinking</td>
<td>attend informal meeting</td>
</tr>
</tbody>
</table>

Degree of matching: moderate

<table>
<thead>
<tr>
<th>Negotiation stage</th>
<th>Negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategies</td>
<td>Strategies</td>
</tr>
<tr>
<td>collaborating</td>
<td>collaborating</td>
</tr>
<tr>
<td>compromising</td>
<td>compromising</td>
</tr>
<tr>
<td>perceptions on PRC negotiators' strategies and respond</td>
<td>patience</td>
</tr>
<tr>
<td>patience</td>
<td>USP</td>
</tr>
<tr>
<td>USP</td>
<td>clarifying important issues</td>
</tr>
</tbody>
</table>

Degree of matching: moderate

<table>
<thead>
<tr>
<th>Post-negotiation stage</th>
<th>Post-negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategies</td>
<td>Strategies</td>
</tr>
<tr>
<td>closely monitor Chinese economic development</td>
<td>closely follow own company policies when changing terms</td>
</tr>
<tr>
<td>closely follow own company policies when changing terms</td>
<td>patience</td>
</tr>
<tr>
<td>patience</td>
<td>USP</td>
</tr>
</tbody>
</table>

Degree of matching: moderate

<table>
<thead>
<tr>
<th>Contract signing stage</th>
<th>Contract signing stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategies</td>
<td>Strategies</td>
</tr>
<tr>
<td>closely follow own company’s objectives</td>
<td>closely follow own company’s objectives</td>
</tr>
<tr>
<td>closely monitor Chinese economic &amp; political environment</td>
<td>thoroughly check contract terms against company policies</td>
</tr>
<tr>
<td>thoroughly check contract terms against company policies</td>
<td>patience</td>
</tr>
<tr>
<td>patience</td>
<td>USP</td>
</tr>
</tbody>
</table>

Degree of matching: moderate

<table>
<thead>
<tr>
<th>Post-contract signing stage</th>
<th>Post-contract signing stage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategies</td>
<td>Strategies</td>
</tr>
<tr>
<td>closely monitor PRC economic development and reflect on the contract</td>
<td>patience</td>
</tr>
<tr>
<td>high level negotiation</td>
<td>USP</td>
</tr>
<tr>
<td>patience</td>
<td>clarifying important issues</td>
</tr>
</tbody>
</table>

Degree of matching: weak
This section is to compare the joint venture negotiation strategies and their process with the ideal strategies and process produced in figures 3.6 in chapter 3.

The ideal joint venture negotiation process and strategies in figure 3.6 and those of Kenwah are matched in figure 4.36 above. The first four stages all have a moderate matching and the final stage displays a weak match.

At the pre-negotiation stage, differences existed in the format of handling etiquette in China and identification of PRC bureaucratic structure. As mentioned previously, Mr. Li converted his relationship with this factory manager from a business associate to an old friend and then to a partnership relationship. The old friend status allowed them to communicate in a more flexible manner. They could meet in restaurants, or other private places. For example, Mr. Li admitted that sometimes they could conduct negotiation on some issues on the phone. Moreover, both Mr. Li and the factory manager were chief negotiators and decision-makers making identification of the Chinese party's bureaucratic structure unnecessary. In fact, the old friend status in Kenwah's accelerated the negotiation process mainly because they did not need to progress through the relationship building process.

At the negotiation stage, both Mr. Li and the factory manager had wholehearted discussions on the formation of this joint venture. Their business association since 1987 also meant considerable guanxi and a good understanding on each other's personal character have been established which made perceptions of each other's strategies and responding to them unwarranted. However, they apparently needed to sort out some important issues especially the sales operations and the co-operative structure of this venture. As Mr. Li emphasised: "...he mainly want to contribute the land and some other assets like machinery and we mainly contribute cash. After we agreed with these, I showed him our sales forecast and profit expectation and he agreed!" Other issues such as the management structure and award were more flexible. For example, Mr. Li admitted that Kenwah awarded 5% year-end bonus to the factory manager to recognise his job performance in 1997.

At the post negotiation stage, Kenwah did not monitor the Chinese economic development. The potential reasons are: 1) edible oil is a daily necessity which is required by all Chinese families and restaurants; and 2) its demand is not derived in nature which means the edible oil market is rarely heavily affected by the general economic conditions in China. Therefore, Mr. Li found it very easy to predict the profit he can make if he controls its supply. As he mentioned: "...we know what profit he (the factory manager) can make if we sell the raw oil to this joint venture at a certain price! And we know the up and down of oil prices in that region!"

The lack of monitoring the Chinese economic condition also exhibited in the contract signing and post contract signing stage apparently for the same reason. In addition, both parties did not go for higher
level negotiation because of their wholehearted co-operation. Furthermore, Mr. Li heavily relies on this factory manager to do all the procedural work for this venture because he has very good contacts with all government officials. Mr. Li was very proud in this quick response: “we just sat down and talked and the new venture was in operation three months after our initial discussion!”

This section analysed the reasons of differences exhibited at different stage of the negotiation process. The next section is to analyse the supportive elements in the negotiation process.

**Joint venture negotiation pillar**

According to figure 3.5 and 3.6 in chapter 3, joint venture negotiation pillar consists of two components:

**Figure 4.37 Cultural influence on Kenwah joint venture negotiation in China**

<table>
<thead>
<tr>
<th>Cultural components</th>
<th>Evidence of cultural influence: strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicted Guanxi influence on joint venture negotiation process: strong</td>
<td></td>
</tr>
<tr>
<td>Mr. Li co-operated with the factory manager when this factory was working in a State-Owned oil-processing factory. They were business associates and established good relationship.</td>
<td></td>
</tr>
<tr>
<td>Inter company visits and long-term relationship was emphasised.</td>
<td></td>
</tr>
<tr>
<td>Mr. Li used his guanxi to set up a joint venture in China.</td>
<td></td>
</tr>
<tr>
<td>The factory manager utilised his guanxi network to cut through all red taps in the Chinese bureaucratic structure and established the joint venture in about 3 months.</td>
<td></td>
</tr>
</tbody>
</table>

| Predicted Face influence on joint venture negotiation process: strong |
| Evidence of face influence: strong |
| The factory manager is hard working and people in the Wuhan region respect him and give him a lot of face (mianzi). |
| All Chinese officials related to this joint venture gave mianzi to this factory manager and worked in their factory for 3 days on part of the approval process. |
| Both sides gave mianzi and never confronted the other party. |
| Both parties exchanged gifts enhance the face (mianzi) of the other party. |

| Predicted Reciprocity influence on the joint venture negotiation process: strong |
| Evidence of reciprocity influence: strong |
| The factory manager reciprocated Mr. Li’s help of lending money to him by doing all the procedural work in this joint venture. |
| Mr. Li reciprocated this factory manager excellent performance in this joint venture by giving 5% year-end bonus in 1997. |

| Predicted Renqing influence on the joint venture negotiation process: strong |
| Evidence of Renqing influence: strong |
| By borrowing Rmb $ 3 million from Mr. Li’s company without any collateral, this factory manager owed Mr. Li a Renqing. |
| This factory repaid Mr. Li’s Renqing by putting in hard work into this joint venture. |

| Predicted Trust influence on the joint venture negotiation process: strong |
| Evidence of Trust influence: strong |
| Mr. Li has trust in this factory manager and lent Rmb $ 3 million to him. |
| The procedural work in setting up this joint venture were solely done by this factory indicated mutual trust were established. |
| Kenwah left this factory manager to solely run the joint venture indicated they have trust on his ability. |
Chapter 4 - Case summary

1. The mutual adaptation of unique Chinese cultural elements by the foreign and the Chinese parties, e.g., *guanxi*, face, reciprocity, *renqing* and trust by the foreign and the Chinese parties;

2. The foreign party’s Problem Solving Attitude (PSA) in the joint venture negotiation project.

The evidence of these components’ operations was revealed in the case study body. This section is to reveal their importance in the joint venture negotiation process. The model in figures 3.5 and 3.6 of chapter 3 predicted that these components have strong influence throughout the joint venture negotiation process. Following the quantitative and qualitative rules that the author of this thesis specified in the IBM case, a strong influence rating is given to all the cultural elements. In fact, the evidence associated with all cultural elements indicated that Kenwah put a lot of effort in handling these cultural elements as shown in figure 4.37.

Figure 4.38 below shows the evidence of Kenwah Problem Solving Attitude in negotiating with their joint venture partners. The information collection and the information exchange are perceived to have a strong influence on Kenwah negotiation process with their Chinese partners. In Kenwah’s case, the information exchange was perfect because both parties turned their relationship from a buyer/seller into a partnership relationship and the sales data available to both of them were identical.

**Figure 4.38** Kenwah Problem Solving Attitude (PSA) in Chinese joint venture negotiation

<table>
<thead>
<tr>
<th>Predicted level of information collection influence on joint venture negotiation: strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of information collection influence: strong</td>
</tr>
<tr>
<td>Kenwah collected vast amount of sales data from the previous State-owned factory and the factory owned by the factory manager from 1987 to the end of 1992. The availability of sales data enabled him to comprehend the demand for edible oil in that region.</td>
</tr>
<tr>
<td>Mr. Li’s frequent travel to China enabled him to collect market information from the Chinese officials.</td>
</tr>
<tr>
<td>Mr. Li visited the factory manager’s plant to obtain site information.</td>
</tr>
<tr>
<td>Mr. Li’s visits to the customers of this factory manager enabled him to collect information of the channel of distribution.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Predicted level of information exchange influence on joint venture negotiation: strong</th>
</tr>
</thead>
<tbody>
<tr>
<td>Evidence of information exchange influence: strong</td>
</tr>
<tr>
<td>Comprehensive information exchange existed in this venture because the sales data available to both parties were identical before the establishment of this venture because they were in a buyer/seller situation.</td>
</tr>
<tr>
<td>Kenwah’s sales forecast and profit expectation was given to this factory manager and was totally agreed by him.</td>
</tr>
</tbody>
</table>

As shown in figure 4.38, the level of information collection and information exchange had strong influence on the joint venture negotiation in Kenwah’s case.
Joint venture outcome

Mr. Li was highly satisfied with the profit performance, market penetration, product sourcing experience, credibility and reputation, future investment intention and learning experience in their joint venture projects in China but he was only moderately satisfied with the management experience. These joint venture outcomes are briefly analysed below.

The profit performance has been very good since the establishment of this joint venture project in 1993. For example, the joint venture recorded an extra-ordinary profit of Rmb 20 million in 1994 because of a sudden price drop in raw oil from Brazil. Based on a 70% profit sharing schedule, Kenwah had a share of Rmb 14 million. In other words, Kenwah had recovered the HK$ 7 million in their second year of operation. This profit level proved that their initial investment decision was absolutely correct. Even Mr. Li did not expect they would have such a profit in 1997, their investment had already been paid back. Based on Porter’s value chain concept, this joint venture is likely to produce profit so long as Kenwah can buy raw oil in the commodity market at competitive prices and re-sell to this joint venture. Another indication on the profit satisfaction is the sales in 1997 that were expected to reach Rmb 1.8 billion. It can be reasonably assumed that the profit satisfaction was very high.

The satisfaction level for the market penetration dimension is very high. Co-operation with the factory manager allowed Kenwah to penetrate the Wuhan region. The excellent guanxi between this factory manager and his distributors initiated them to have tight co-operation working toward the market expansion goal. This joint venture is now the largest edible oil manufacturer in the Wuhan locality and occupies 50% of the market. Because of their market domination, their competitors have to follow their pricing strategy and adjust their own pricing strategies accordingly. The evidence indicates that Kenwah is the market leader within that region and their market penetration is extremely high.

The satisfaction level of the management experience is only moderate. Based on mutual trust and their level of confidence of this factory manager, Kenwah have not sent any staff from Hong Kong to manage this joint venture. This arrangement keeps Kenwah’s interference and management cost to a minimum. If everything goes well, the satisfaction level should be rated as high. However, the factory manager’s management style is a bit old fashion and therefore Kenwah may need to send personnel from Hong Kong to get involved in the daily operation of this venture. Because of these reasons, the rating is downgraded to a moderate level.

The satisfaction level on the product sourcing is very high. Their major material, raw oil is being transferred from Hong Kong via Kenwah. The transfer pricing system is believed to be rational and can ensure profitability at each level. Also, the factory manager has a very good guanxi with local
suppliers and therefore they have no difficulty in securing local material. For example, they have a continued supply of an alkaline-based material.

The factory manager earned a lot of respect from the local community and there is no problem in the credibility. Also, their joint venture is the biggest manufacturer in the region and employs a lot of people. They are well known, everybody knows them in the local community. The evidence indicates a high satisfaction rating must be given to this credibility and reputation dimension.

According to Mr. Li, their overall investment experience is very enlightening and therefore they will continue to seek investment opportunities in the PRC. Therefore, a high satisfaction rating must be given to this dimension.

Mr. Li learning experience is at a very high satisfactory level which can be summarised into three important guidelines when negotiating joint venture in China 1) patience is important in China; 2) understanding Chinese culture and 3) looking for a good partner is vital.

The discussions on all the satisfaction dimensions are listed in figure 4.39.
Figure 4.39  Satisfaction of joint venture outcome in China

Profit satisfaction level: high
- Flexible co-operative JV terms allowed Kenwah to recover investment in a short run. For example, the joint venture recorded a profit of Rmb 20 in 1994. Based on a 70% of this venture, Kenwah had recovered the HK$ 7 million they initially put into the venture.
- Kenwah was expecting a sales of Rmb $ 1.8 billion in 1997. It is reasonably assumed that the profit was satisfactory.

Market penetration satisfaction level: high
- Good guanxi between the factory management and the customers allowed them to grow.
- The joint venture becomes the largest manufacturer in the locality in a five-year time frame.
- Kenwah had approximately 50% of the market in 1997 which means their penetration was extremely high.
- Kenwah dominates the domestic market and their competitors have to respond to their price change.

Management experience satisfaction level: moderate
- Mr. Li has not sent any personnel from Hong Kong to involve in the daily management of the venture because of their confidence in the factory manager’s ability. Management cost was therefore kept to a minimum.
- The factory manager’s management style is a bit old fashion and therefore Kenwah may have to send personnel from Hong Kong to manage that joint venture in the future.

Product sourcing satisfaction level: high
- All the raw oil is being transferred via Kenwah Hong Kong and therefore profitability at each level is ensured.
- Because of the factory manager’s excellent Guanxi with the local suppliers, they have no problem in sourcing other major materials locally. For example, they have no difficulty in securing an alkaline-based material to process their oil.

Credibility and reputation satisfaction level: high
- Because the factory manager earned a lot of respect in the locality, there is no problem in the credibility.
- Everybody knows this joint venture in Wuhan because it is the largest in that locality.
- They employed a lot of people in that locality.

Future investment intention satisfaction level: high
- They have a very favourable performance and surely they will look for opportunity to invest in China.

Learning experience satisfaction level: high
- Patience is very important in China.
- Understanding Chinese culture is important.
- Looking for a good partner is important to have a successful joint venture in China.

4.6.3 Conclusion

There is strong evidence to show that Kenwah Joint Venture negotiation in China follows the process proposed on figures 3.5 and 3.6.
Chapter 4: Case summary

Environment

As discussed, the economic conditions in Wuhan exert a strong encouragement on Kenwah’s negotiation in China. At macro level, the general growth in the edible oil market is a driving force. At micro level, the support given by their distributors and their scale of operation gave Kenwah competitive advantages in the Chinese market.

The political/legal environment culminates in strong encouragement on Kenwah’s joint venture negotiation in China. In saying that, the stable political environment alone exerted a strong encouragement to IBM’s development in China. This strong encouragement was ensured by Mr. Li’s good understanding of the Chinese legal system and his Chinese partner’s excellent guanxi with the local authority in Wuhan.

The technology environment exerted a strong encouragement on Kenwah’s development in China because of its minimal investment in technology in this industry and its abundant labour supply.

Organisational constraints

Kenwah was a typical family operation. Their director, Mr. Li had freedom to make a lot of decisions on their joint venture negotiation with their Chinese counterparts. According to Mr. Li, his father and other family members only exerted very weak influence on his decision making regarding the dividend arrangement, life span of the contract, plant specification and board representation. Again, they only exerted moderate influence on the decision of investment amount. The minimal influence pattern from the head office implies his freedom of decision making could be maximised.

Joint venture negotiation strategies and process

The analyses in this section show that Kenwah has been approaching the Chinese market in a prudent stage-wise process. However, the negotiator, Mr. Li. increased the pace of negotiation by utilising his guanxi with his Chinese partner. Because of the pre-determined guanxi, differences regarding the joint venture structure could be quickly resolved. Also, his excellent relationship helped him cut through all the bureaucratic red tape and establish the joint venture within 80 days!

Joint venture negotiation pillar

All the five Chinese cultural elements have a strong influence throughout the joint venture negotiation process. Kenwah negotiator, Mr. Li also spent a huge effort to collect information regarding the Chinese environmental influences and their joint venture partners. He also exchanged information with their Chinese counterparts and utilised the information to match their resources with the Chinese firms’ expectation. In summary, Mr. Li is equipped with a problem-solving attitude (PSA).
Joint venture outcome

Kenwah had a high satisfaction rating on all dimensions except the management experience. Mr. Li attributed the moderate rating on management experience because of the dated management style of the Chinese factory manager.

The Kenwah case was a "whole" study on the joint venture negotiation model from a foreign company perspective in the sense that it demonstrated the importance of the environment influences on Kenwah’s joint venture negotiation in China. The family style of operation also determined their business mode of operation in China which exert minimal level of influence on the negotiators. The importance of the joint venture negotiation pillar functioned throughout the negotiation process that consists of the unique cultural elements and the problem-solving attitude was also demonstrated. In fact, the whole case illustrated that a cross-cultural joint venture negotiation in a Chinese context must be approached in a holistic nature. The company must evaluate the environmental context in a specific country i.e. China. The specific environment and management perception on that market determines the influence that the corporate head office exerts on their negotiators. The negotiators must appreciate the unique culture and process with problem-solving attitude (PSA) when negotiating with their counterparts throughout the negotiation process.

In summary, the Kenwah joint venture negotiation process in China is identical to the model proposed in figure 3.5 and 3.6 in chapter 3.

4.7 SYNERGIE INVESTMENT (GROUP) LTD.

"If something which is reasonable and fair but not legal, it can be discussed. However, if something which is legal but not reasonable and fair, it cannot be conversed!" - Mr. Daniel So, Managing Director of Synergie Investment (Group) Ltd. 10

4.7.1 Background

Synergie started their investment in China in the early 1980s. They were initially involved in the manufacturing of Hi-tech computer products and their businesses have grown over the years. Their present joint venture investment projects in China include software manufacturing, motorcycle manufacturing, computer manufacturing, property development and mobile phone battery manufacturing. These joint venture establishments, however, required extensive effort. As Mr. So- Managing Director of Synergy recalled: “When I ran around in China looking for opportunity in the

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10 The preparation of this case was based on an interview with Mr. Daniel So- Managing Director of Synergie Investments (Group) Ltd and the articles cited at the reference section of this case.
80s, People said I was crazy! People said that they all concentrated their investment in Hong Kong and ask me why should I go to China! The economy there have not been developed!"

CHESS Computer Ltd. was Synergie's software equity joint venture in China. It was capitalised at below US$ 30 millions and was officially opened in 1993. There were 3 foreign and 3 Chinese partners in this venture. The foreign parties include Mr. PK Shum of Unisys Ltd., Mr. Jims Clark of Netscape\textsuperscript{ed}, and Mr. Daniel So of Synergie Investment. The three Chinese partners included two State Owned Enterprises Yunnan Electronic Equipment Co., Asian Simulation Co. and the Shenzhen City Government. This joint venture had a total employment of less than 50 people. Mr. So referred his discussion to this joint venture because he had sold out his shares to other partners in this joint venture and therefore relevant information could be released.

4.7.2 Within case analyses

The data provided by Synergie suggest that their joint venture negotiation experience is highly compliant with the joint venture negotiation model in figures 3.5 and 3.6 in chapter 3. In the following section the eight research questions listed at the beginning of this appendix will be investigated to give a general conclusion on Synergie joint venture negotiation in China.

Environmental influence on joint venture negotiation

An evolution of this Chinese joint venture can be found in Figure 4.40. Mr. So started his investment in China in the 1980s and developed an interest in the computer market. He met Mr. Jim Clark who is one of the pioneers in computer graphic technology and was amazed by its market potential. Then Mr. So contacted his friend Mr. PK Sum of Unisys to discuss this technology which was subsequently referred by Mr. Sum to his friends working in the Shenzhen Government. This social or guanxi network kept on evolving into their software joint venture in Shenzhen. Throughout the evolution process, Mr. So's initiation was encouraged by the Chinese economic, political/legal, and technology environment which the author of this thesis will discuss below.

An evolution of this Chinese joint venture can be found in Figure 4.40.
Figure 4.40  An evolution of Synergie’s joint venture in China

- Mr. So of Synergie started investment in China in the early 1980s and understands the market potential of computer graphic application market in the PRC.
- He met Mr. Jims Clark in the U.S. in 1989 who is one of the pioneers in computer graphic technology and was amazed by the vast market potential of this technology.
- Mr. So discussed the market potential of this computer technology with one of his good friends Mr. PK Shum of Unisys and came up with the idea of producing computer graphic in the PRC.
- The above discussion confirmed that they are capable to run a joint venture in China but the most important thing was to find good Chinese partners.
- Mr. PK Sum contacted one of his friends in the Shenzhen Government and Mr. So approached Mr. Jims Clark to discuss the possibility of producing computer graphic in the PRC.
- With the help of the Shenzhen government, the three foreign parties identified two other Chinese firms, Yannan Electronic Co. and Asian Simulation Co. as their partners.
- Because of the strategic positioning of the Shenzhen City Government, they became one of the Chinese partners.
- With the help of the Shenzhen Government, the joint venture was established in 1993.

Economic environment

Mr. So’s early involvement in Chinese Hi-tech market enabled him to understand the enormous market potential of this product. As Mr. So described his own perception: “When we (Mr. So and Mr. Jims Clark) discussed this software technology, I was impressed and thought it got to be a winner.”

In addition, Mr. So’s perception was re-confirmed when the foreign parties understood that there were only two other licensed graphic software manufacturers in China. One of them was Sun Computer Co. Ltd. Limited competition in the Chinese market provided enormous market and profit potential to their joint venture company CHESS Computer Co. Ltd. Moreover, all the joint venture partners were experts in the field. For example, Mr. Jim Clark of Netscape is a leading expert in graphic application; Mr. PK Shum is an important person in Unisys; Yannan Electronics and Asian Simulation have good distribution channels in China; and Mr. So himself is a marketing expert in Hi-Tech products.

These factors are important economic consideration when they established this joint venture in China and provided very strong encouragement to Synergie to invest in China. However, the economic encouragement must be supported by other environmental factors such as political/legal and technology environments that will be discussed in later section.

Political/legal environment

As shown in figure 4.40, the joint venture was established with the help from the Shenzhen Government in 1993 that was after Deng’s visit to Southern part of China. In fact, Deng’s visit injected additional confidence to the stability of the political environment. This favourable political environment was fuelled by the admirable taxation arrangement in Shenzhen because it was the first Special Economic Zone (SEZ) to provide preferential tax treatment to foreign investors in the Hi-tech
information market. This political/legal environment strongly encouraged Synergie to invest in Shenzhen.

On the other hand, the China legal system has a lot of uncertainties. As Mr. So pointed out, the legal system could not fully protect foreign investment that inspired him to invest in some "safe areas" such as Beijing, Shanghai and Shenzhen. Different government officials had different interpretations of the law and therefore the invitation of the Shenzhen City Government to the joint venture should be treated as an act of reciprocity and as an assurance of their investment in Chinese legal system. They could provide help to the venture in case of unforeseen circumstances. Nevertheless, the Shenzhen Government's involvement also exposed their weaknesses in decision making because they gave a lot of empty promises. In view of these uncertainties, the strong encouragement is downgraded to moderate encouragement.

Technology environment

The technology environment in Shenzhen has been very encouraging. Firstly, the Shenzhen City Government favoured foreign investment in the hi-tech information industry by means of giving tax preference to these investors. This preferential tax treatment was supported by a good supply of computer programmers in the Chinese market. Mr. So concurred: "To be quite honest, there are quite a lot of people in China who can write good computer programs!" His view coincides with that of Mr. Rodriguez of IBM in case no. 1: "the high level of academic and theoretical computing knowledge in China made it an ideal centre for software development." This favourable technological environment, together with the expert knowledge of the foreign partners produced a strong encouragement for these foreign partners to establish their joint venture in China.

In summary, the economic and technology environment culminate in a strong encouragement on Synergie's establishment of their joint venture in China and the political and legal environment only exerted a moderate encouragement on their investment. The factors producing these results are presented in figure 4.41.
**Figure 4.41  Environmental influence on Synergie venture negotiation in China**

**Economic environment**

*strong encouragement*

- Enormous market and profit potential exists in the computer graphic application market.
- Competition is minimum; there are only two computer graphic application companies in China which have obtained manufacturing licenses.
- All joint venture partners are well known in the computer graphic application field. Mr. Jims Clark is a leading expert in computer graphic application; Mr. PK Shum is a figure head of Unisys in Hong Kong; Yannan Electronic and Asian Simulation are very unique computer application companies in China which have a good distribution channel.

**Political/legal environment**

*moderate encouragement*

- Stable political environment has very positive influence on Synergie’s development in China.
- The involvement of Shenzhen government in the approval process is a definite advantage to the establishment of this venture in China.
- Shenzhen provided favourable tax arrangement to foreign investors in Hi-Tech information industry.
- Different interpretation of laws within the same legal system by different regional government force the foreign partners to adapt very flexible attitude in establishing this joint venture.
- The giving of empty promises by the Chinese government officials produced confusion.

**Technological environment**

*strong encouragement*

- Shenzhen government encouraged foreign investment in Hi-Tech information industry.
- The procession of very high-tech knowledge by Synergie and their foreign partners is definite advantage to their development in China.
- Availability of computer experts in the Chinese market.

This section describes all the environmental factors surrounding Synergie’s joint venture in China. The next section is used to analyse the organisational constraints of Synergie.

**Organisational constraints**

All foreign partners’ head offices did not interfere with their decisions because all the chief negotiators were the most senior executives in their companies and therefore they have been very autonomous in making decisions as listed in figure 4.42. The only occasion that Mr. So contacted his office was to determine the cash flow situation of his company.
Figure 4.42  
**Extend of influence from Head Office**

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>Extend of influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment amount</td>
<td>Head Office</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>weak influence</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>no influence</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>no influence</td>
</tr>
<tr>
<td>Board representation</td>
<td>no influence</td>
</tr>
<tr>
<td>Expatriates’ expenses</td>
<td>no influence</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no influence</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>N/A*</td>
</tr>
</tbody>
</table>

*Synergie mainly contributed capital in this project. The technology is the responsibility of Mr. Jim Clark of Nescape. Therefore, this dimension is not applicable (N/A).*

The autonomy in making decisions contributed to the smooth negotiation process because of minimal information flow from the negotiator to their head offices. In addition, all the environmental factors identified in the last section encouraged Synergie to invest in China which implies investment risk is limited in this venture. Limited investment risk coupled with effective negotiation that the author of this thesis is going to discuss in next section is key contributors to the successful negotiation in this venture.

**Joint venture negotiation strategies and process**

This section is to compare Synergie’s joint venture negotiation strategies and their process with the ideal strategies and process produced in figures 3.5 and 3.6 in chapter 3. The ideal joint venture negotiation process and strategies in figure 3.6 and those of Synergie are matched in figure 4.43 above. The first two stages have a strong matching; the next two stages have a moderate matching; and the final stage has a weak match.

At the pre-negotiation stage, differences existed in the format of handling etiquette. Besides eating and drinking, Mr. So and his foreign partners also met their Chinese partners in some other informal meetings. For example, they invited their PRC partners to come to Hong Kong for a business tour and provided them with pocket money (per diem in western term). Another major aspect of this joint venture was the complex composition of all joint venture partners. Because there were three Chinese partners and each of them may have different goals for the joint venture, the foreign partners had to confirm their intention by using probing techniques on a lot of informal occasions.

At the negotiation stage, the foreign parties needed to clarify a lot of important issues related to the joint venture. These issues included the investment commitments of these three Chinese parties, the
private goals of their chief negotiators and their expectation of this joint venture. For example, the investment amount may be related to their goals of their investment. As mentioned in the environmental analysis section, the Shenzhen Government needed to invest in some items necessary to position the City as a high-tech centre. Other parties’ goals may be purely profit and market driven. These issues were complex and interlocking in nature and required the foreign parties’ careful deliberation.

Because the foreign parties’ strategies in the post negotiation and the contract signing stage were essentially the same as the ideal strategies and at least two thirds of the items were identical with the ideal, a moderate rating was assigned. The only difference was found in their monitoring process. The foreign parties did not closely monitor the Chinese economic environment that may be in conflict with most international marketing theory. However, taking into account that the Chinese parties initiated changes of the contract, the foreign parties relied upon their requests to align the amendments to mutual expectation. As Mr. So admitted: “they had changes before we signed the contract...and they added in supplement after we signed the contract. We knew what changes were mandatory...we would entertain them if we thought they were fair!” In other words, the foreign parties had some pre-determined business operational dimensions; the changes or supplements must fall within the context of these dimensions.

At the post contract signing stage, the foreign parties did not closely monitor the PRC economic development and went to higher level negotiation. Because only one item ‘patience’ matches with the ideal situation, a weak rating is assigned. This weak rating does not mean patience was the only characteristic exhibited. Instead, the foreign parties needed to do some other things that are not included on the ideal pattern. For example, the Chinese parties requested some other amendments that may not have been able to be itemised on the contract. As Mr. So explained: “May be they were relatively inexperience in conducting business... We solve business problem on a daily basis. Everything changed once the contract has been signed... we might never see the contract again once we have signed it!”

This section discusses the strategies that the foreign parties employed at different stages of the negotiation process. The contents of the discussion and their assigned ratings are displayed in figure 4.43 below. However, the cultural elements and their Problem Solving Attitude (PSA) are not included in this section because their importance is applicable to the whole negotiation process. Vigorous attachment of their importance onto a particular stage will underscore their influence on some other stage. In saying that, they acted as a ‘negotiation pillar’ and this pillar dominated the whole process which will be discussed in the following section.
<table>
<thead>
<tr>
<th>Pre-negotiation stage</th>
<th>Pre-negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Ideal</strong></td>
<td><strong>Synergie</strong></td>
</tr>
<tr>
<td><strong>Organisation Objectives</strong></td>
<td><strong>Organisation Objectives</strong></td>
</tr>
<tr>
<td>Identification of PRC bureaucratic structure</td>
<td>Identification of PRC bureaucratic structure</td>
</tr>
<tr>
<td>Identification of common marketing and financial goals</td>
<td>identification of common marketing and financial goals</td>
</tr>
<tr>
<td><strong>Personal Objective</strong></td>
<td><strong>Personal Objective</strong></td>
</tr>
<tr>
<td>Identification of PRC negotiators’ goals</td>
<td>identification of PRC negotiators’ goals</td>
</tr>
<tr>
<td><strong>Etiquette</strong></td>
<td><strong>Etiquette</strong></td>
</tr>
<tr>
<td>Eating and drinking</td>
<td>attend informal meeting</td>
</tr>
</tbody>
</table>

**Degree of matching:** Strong

<table>
<thead>
<tr>
<th>Negotiation stage</th>
<th>Negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>Collaborating</td>
<td>Collaborating</td>
</tr>
<tr>
<td>Compromising</td>
<td>Compromising</td>
</tr>
<tr>
<td>Perceptions on PRC negotiators’ strategies and respond</td>
<td>Perceptions on PRC negotiators’ strategies and respond</td>
</tr>
<tr>
<td>Patience</td>
<td>Patience</td>
</tr>
<tr>
<td>USP</td>
<td>USP</td>
</tr>
<tr>
<td>Clarifying important issues</td>
<td></td>
</tr>
</tbody>
</table>

**Degree of matching:** Strong

<table>
<thead>
<tr>
<th>Post negotiation stage</th>
<th>Post negotiation stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>Closely monitor Chinese economic development</td>
<td>Closely follow own company policies when changing terms</td>
</tr>
<tr>
<td>Closely follow own company policies when changing terms</td>
<td>Patience</td>
</tr>
<tr>
<td>Patience</td>
<td></td>
</tr>
</tbody>
</table>

**Degree of matching:** Moderate

<table>
<thead>
<tr>
<th>Contract signing stage</th>
<th>Contract signing stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>Closely follow own company’s objectives</td>
<td>Closely follow own company’s objectives</td>
</tr>
<tr>
<td>Closely monitor Chinese economic &amp; political environment</td>
<td>Thoroughly check contract terms against company policies</td>
</tr>
<tr>
<td>Thoroughly check contract terms against company policies</td>
<td>Patience</td>
</tr>
<tr>
<td>Patience</td>
<td></td>
</tr>
</tbody>
</table>

**Degree of matching:** Moderate

<table>
<thead>
<tr>
<th>Post-contract signing stage</th>
<th>Post-contract signing stage</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategies</strong></td>
<td><strong>Strategies</strong></td>
</tr>
<tr>
<td>Closely monitor PRC economic development and reflect on the contract</td>
<td>Closely follow own company’s objectives</td>
</tr>
<tr>
<td>High level negotiation</td>
<td>Patience</td>
</tr>
<tr>
<td>Patience</td>
<td></td>
</tr>
</tbody>
</table>

**Degree of matching:** Weak
Joint Venture negotiation pillar

According to figures 3.6 in chapter 3, joint venture negotiation pillar consists of two components:

Figure 4.44 Cultural influence on Synergie joint venture negotiation in China

<table>
<thead>
<tr>
<th>Cultural components</th>
</tr>
</thead>
<tbody>
<tr>
<td>Predicted Guanxi influence on joint venture negotiation process: strong</td>
</tr>
<tr>
<td>Evidence of guanxi influence: strong</td>
</tr>
<tr>
<td>• The guanxi between Mr. So of Synergie and Mr. Sum of Unisys initiated the establishment of this software joint venture.</td>
</tr>
<tr>
<td>• Mr. Sum approached one of his guanxi members who was an official in Shenzhen City Government concerning this joint venture.</td>
</tr>
<tr>
<td>• This official introduced other Chinese organisations which have good guanxi with the Shenzhen City Government to joint venture with the foreign parties.</td>
</tr>
<tr>
<td>• Foreign parties established Guanxi with their Chinese counterparts through inter company visit with their Chinese partners.</td>
</tr>
<tr>
<td>• Long term relationship was emphasised during every meeting.</td>
</tr>
</tbody>
</table>

| Predicted Face influence on joint venture negotiation process: strong |
| Evidence of face influence: strong |
| • The foreign parties present gifts to the Chinese parties to enhance their Mianzi. |
| • The foreign parties maintained the face of all parties. For example, they never confronted their Chinese parties; rather they solved the conflict in private meetings. |

| Predicted Reciprocity influence on the joint venture negotiation process: strong |
| Evidence of reciprocity influence: strong |
| • The foreign parties reciprocated the Shenzhen Government’s help by inviting them to be one of the Chinese joint venture parties. |
| • The Chinese parties did all the procedural works for the application of this venture. |

| Predicted Renqing influence on the joint venture negotiation process: strong |
| Evidence of Renqing influence: strong |
| • Based on renqing, the official in the Shenzhen City government introduced other Chinese organisations to meet the foreign organisation. |
| • The foreign parties provided pocket money (per diem in western term) to the Chinese parties as a reciprocity to their co-operation. |
| • The foreign parties helped the Chinese parties arrange visas to Hong Kong that was an act of offering them renqing. |

| Predicted Trust influence on the joint venture negotiation process: strong |
| Evidence of Trust influence: strong |
| • Mutual trust was established through various formal and informal meetings. |
| • Subsequent changes were based on mutual trust and were not recorded on the contract. |

1. The mutual adaptation of unique Chinese cultural elements by the foreign and the Chinese parties e.g. guanxi, face, reciprocity, renqing and trust by the foreign and the Chinese parties;
2. The foreign party’s Problem Solving Attitude (PSA) in the joint venture negotiation project.

The evidence of these components’ operations was revealed in the case study body. This section is to reveal their importance in the joint venture negotiation process. The model in figures 3.5 and 3.6 of chapter 3 predicted that these components have strong influence throughout the joint venture negotiation process. Following the quantitative and qualitative rules that the author of this thesis
specified in the IBM case, a strong influence rating is awarded to all the cultural elements. In fact, Synergie and their foreign parties put a lot of effort in handling these cultural elements as shown in figure 4.44.

Figure 4.45 below showed the evidence of Synergie and their foreign parties’ Problem Solving Attitude in negotiating with their joint venture partners. The information collection and the information exchange are perceived to have a strong influence on the negotiation process with their Chinese partners.

The cultural elements and the Problem Solving Attitude (PSA) actually formed a negotiation pillar in the joint venture negotiation process. The completion of this negotiation process will lead to the implementation of the joint venture. Since implementation is outside the scope of thesis, the author of this thesis will discuss the implementation result in the next section to reflect the foreign parties’ overall satisfaction on this venture.

**Figure 4.45** Synergie Problem Solving Attitude (PSA) in Chinese joint venture negotiation

Predicted level of *information collection* influence on joint venture negotiation : strong

Evidence of *information collection* influence : strong
- Foreign parties carried out formal check including request for financial statement and investigation of the Chinese parties’ capitals commitment and their political background.
- They also checked the Chinese parties’ business objectives that were expressed on the local newspaper. These expressed objectives were crossed check with the information they collected directly from their Chinese partners.
- Foreign parties checked their Chinese parties’ intention and commitment from their *guanxi* members.
- The foreign parties also carried out some informal check on their Chinese parties’ capabilities of forming this joint venture.
- Foreign parties’ preliminary check on the market potential to identify the needs of their Chinese parties.
- Foreign partners also visited their PRC partners’ sites to obtain information.

Predicted level of *information exchange* influence on joint venture negotiation : strong

Evidence of *information exchange* influence : strong
- The foreign parties exchange information on their profit expectation and capital requirements by each party.
- Whenever the Chinese wanted to initiate a change, all parties would exchange their view on the change.

**Joint Venture Outcome**

The performance of different outcomes varied. The satisfaction level of profit and credibility and reputation were low whereas the satisfaction for market penetration, management experience and product-sourcing outcome was moderate. Two outcomes, future investment intention and learning experience obtained a high satisfaction rating.
Unlike previous cases, the negotiation for this joint venture was more complicated. This complication stemmed from two areas:

1. There were three foreign and three Chinese partners in this venture and there were one foreign and one Chinese partner in previous five cases. The complex composition in the management team implied that communication among members was difficult; and
2. The inception of different ideas by a larger number of management members inferred that compromise of these ideas was difficult. The compromise involved lengthy discussion that made implementation of ideas remote.

These two factors have direct or indirect impacts on the satisfaction level of the above outcomes that the author of this thesis is going to discuss.

As mentioned, the partnership composition of this joint venture was complicated. Co-ordination among these partners, therefore, was a major problem. Lack of co-ordination among a large number of management members in the daily operation means important decisions could not be made easily, and this implies sales pick up was slow. Profit could not be materialised. In addition, low levels of domestic sales could not generate economy of scale to support export to other markets that further defeated the profit picture. In view of these unfavourable factors, a low satisfaction rating was awarded to this outcome.

Taking into account that the complicated partnership composition and establishment of this venture, slow penetration was expected. Therefore, a low satisfaction rating should be awarded to this outcome. However, the lack of similar product in the Chinese market may induce trial that certainly helped penetrating the Chinese market. The unfavourable and favourable factors balanced one another and therefore a moderate rating is awarded to this outcome.

Concerning the management experience, Mr. So mentioned that the management of local employees was not a pleasant experience due to difference in cultural background. The Western management concept could not be fully implemented in this joint venture which made the implementation of task to objective orientation difficult. Also, a large number of management members made compromise on management ideas difficult, if not impossible. With these unfavourable factors in force, a low satisfaction rating should be awarded to this outcome. However, taking into account that local personnel have good understanding of local condition which contributes to the marketing of the products to the domestic market if proper training is provided. A moderate rating is awarded to this outcome.

Mr. So mentioned that some of the components for their turnkey operations could be sourced in the domestic market which should lower their cost of production due to reduction in transportation cost
and delivery lead times. However, the qualities of these components were too often inconsistent which called for lengthy quality assurance process. In view of these favourable and unfavourable factors, a moderate rating was awarded to this outcome.

As the product was in the introductory stage of its life cycle, sales were slow and therefore the credibility and reputation could not achieve a reasonable level. A low satisfaction rating is, therefore, awarded to this outcome.

The low satisfaction level in profit does not mean a low investment intention, according to Mr. So. In fact, Mr. So was very confident in investing in China because of his in-depth understanding of the Chinese economic system. His philosophy was to invest in some safer cities such as Beijing and in different industries. His present investment items included a property development project, a motorcycle production; mobile-phone battery productions that are all located in major capital cities of China. The diversification strategy produced a hedging effect on his investment profile. His positive view in the Chinese market initiates the author of this thesis to award a high satisfaction rating to this outcome.

Throughout Mr. So.'s investment experience, Mr. So has learned 1) patience is very important in China and 2) cost must be minimised. The mainland Chinese do not treasure time because it is not an important asset in a socialistic country. Negotiation for any project must not be rushed in this sense or otherwise it will create an intolerable situation for the Mainland Chinese. A low cost structure, on the other hand, can sustain growth of a business unit in the highly turbulent Chinese country that may call for economic adjustment in a moment of uncertainty. Lost cost can ensure minimal loss in adverse situation. Therefore, he will find a way to reduce cost. For example, he seldom sends expatriates to manage his joint ventures in China. The learning experience has been pleasant and therefore, a high satisfaction rating is awarded in this outcome.

A summary of the above discussion can be found in figure 4.46.
Figure 4.46 Satisfaction of joint venture outcome in China

Profit satisfaction level: low
- Lack of co-ordination among parties in the daily operation means important decisions could not be made easily that implies sales pick up was slow. Profit, therefore, could not be materialised.
- Lack of export sales means sales was only limited to a domestic level that was premature to use such high technology.

Market penetration satisfaction level: moderate
- Taking into account the complicated partnership composition and establishment of this venture, slow market penetration was unavoidable.
- However, lack of similar product in the Chinese market may induce trial from the market that certainly helped market penetration.

Management experience satisfaction level: moderate
- The management of local employees was not a pleasant experience because of differences in cultural background. Western management concept could not be fully implemented.
- Co-ordination of management ideas was difficult.
- However, local personnel have a good understanding on local condition. They may help company development when they are properly trained.

Product sourcing satisfaction level: moderate
- Some of the components for their turnkey projects could be sourced from the domestic market that contributed to the growth of their joint venture in China.
- The qualities of these components, however, were inconsistent.

Credibility and reputation satisfaction level: low
- Short history of this joint venture implied market awareness was low
- Slow in sales implied market coverage was low.

Future investment intention satisfaction level: high
- Mr. So is very confident in his future investment intention in China because of his in-depth understanding of the Chinese market potential.
- Mr. So's investment is diversified to reduce risk.

Learning experience satisfaction level: high
- Patience is important in China.
- Cost must be minimised. For example, keeping an expatriate in China is expensive and therefore training up of local personnel is important.

4.7.3 Conclusion

There is strong evidence to show that Synergie Joint Venture negotiation in China follows the process proposed on figures 3.5 and 3.6.

Environment

The economic conditions in China exert strong encouragement on Synergie negotiation in China. At macro level, the general growth in the Chinese computer-graphic application market is a driving force. At micro level, the specific competitive strength in terms of the partners' knowledge and
reputation in this market was a major asset. Also, limited competitive activity strongly encouraged their participation in the Chinese market.

The political/legal environment culminated in a moderate encouragement on Synergie joint venture negotiation in China. In saying that, the stable political environment alone exerted a strong encouragement to Synergie’s development in China. However, the political/legal rating is downgraded to a moderate encouragement because of the lack of definitive legal interpretation and the empty promises given by government officials.

The technology environment culminated in a strong encouragement on Synergie’s development in China. This is because 1) the Chinese Government’s encouragement on their investment, 2) the procession of hi-tech knowledge by the foreign partners, and 3) the availability of computer professionals in the Chinese market.

Organisational constraints

Mr. So, being the managing director of Synergie, has freedom to make a lot of decisions in regard to their joint venture negotiation with their Chinese counterparts, except for decisions implicating the cash flow situation of his company, he made decisions in all other dimensions.

Joint venture negotiation strategies and process

The analyses in this section show that Synergie has been approaching the Chinese market in a prudent stage-wise process. As indicated on figure 4.43, Synergie progressed very slowly in going through every individual stage. The resolution of differences required numerous interactions and effort between Synergie, its foreign partners and their Chinese counterparts.

Joint venture negotiation pillar

All the five Chinese cultural elements have a strong influence throughout the joint venture negotiation process. On the contrary, Mr. So of Synergie spent a huge effort to collect information regarding the Chinese environmental influences and their joint venture partners. They also exchanged information with their Chinese counterparts and utilised the information to match their resources with the Chinese firms’ expectation. In summary, Mr. So of Synergie had a problem-solving attitude (PSA).

Joint venture outcome

In summary, Mr. Synergie had a high satisfaction level on the future investment intention, and learning experience in the PRC market. Mr. So only had a moderate satisfaction on market
penetration, management experience and product sourcing. And he had a low satisfaction level on other dimensions.

The Synergie case was a “whole” study on the joint venture negotiation model from a foreign firm’s perspective in a sense that it demonstrated the importance of the environment influences on Synergie’s joint venture negotiation in China. Mr. So’s entrepreneur style also determines Synergie’s decision making pattern in China. The importance of the joint venture negotiation pillar functioned throughout the negotiation process that consists of the unique cultural elements and the problem-solving attitude was also demonstrated. In fact, the whole case illustrated that a cross-cultural joint venture negotiation in a Chinese context must be approached in a holistic nature. The company must evaluate the environmental context in a specific country i.e. China. The specific environment and management perception on that market determines the influence that the corporate head office exerts on their negotiators. The negotiators must appreciate the unique culture and process with problem-solving attitude (PSA) when negotiate with their counterparts throughout the negotiation process. In the case of China, it is a five-stage model that is determined by its bureaucratic legal system. The case also demonstrated that successful joint venture negotiation does not necessary mean that a foreign firm will be highly satisfied with the result. For example, Synergie was only highly satisfied with the future investment intention and the learning experience. It only has either a moderate or low satisfaction on other dimensions.

In summary, the Synergie joint venture negotiation process in China is identical to the model proposed in figures 3.5 and 3.6 in chapter 3.

4.8 DONALDSON FAR EAST LTD.

“This State Owned Factory had a financial problem, they required some company to employ their excessive manpower which was allocated by their danwei. We were just there to fill up the gap.”

Mr. Kenneth Yeng- Division Manager, Torit Products

4.8.1 Background

Donaldson Far East Ltd. is a subsidiary of Donaldson Company Inc. of the United States that is a leading world-wide manufacturer of filtration products. It is listed on the New York Stock Exchange with record sales of US$ 703 millions and employed over 5,000 people at the end of 1995. The

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11 The preparation of this case was based on an interview with Mr. Kenneth Yeng, Manager, Torit Products of Donaldson Far East Ltd and articles cited at the reference section of this case.
company's 80 years of experience allows Danoldson's engineers to develop a full range of product mix including air and liquid filters and exhaust and emission control products for heavy duty mobile equipment; in-plant air cleaning system; air intake systems and exhaust products for industrial gas turbines; and specialised filters for such diverse applications as computer disk drives, aircraft and personal respirators. Products are produced at 10 U.S. plants, 11 other plants around the world and two joint ventures.  

Motives of the joint venture

Donaldson Far East is based in Hong Kong to look after the Greater China Market and the rest of Far East besides Japan, India and Australia. Starting from 1991, a lot of their customers have moved into China to take advantage of the comparatively cheaper factory cost. Donaldson Far East then considered how to better serve their existing customers in China. Mr. Yeng recalled: "5 years ago, a lot of our Hong Kong customers moved into China. In response to our customers' request, we intended to set up a assembly joint venture there to look after them. Also, this joint venture may provide us the opportunity to open up the Chinese market."

Organisational constraints

Because they had limited knowledge in the Chinese market, they intended to establish the joint venture in such a way that all the complicated bureaucratic procedures could be avoided so that they could save some management cost. They also attempted to limit their investment risk. Mr. Yeng remarked: "You know, our company has 80 years of history and we are a bit conservative in going into China. We did not want to be too risky. Before we went into China, my boss asked me how much investment would be involved. I told him it would be US$ 700,000... At that time, we though our maximum lost would be that US$ 700,000, so my boss told me to go ahead!"

Negotiation process

After Mr. Yeng obtained the green light to go ahead, he then looked for a way to set up the joint venture in the simplest way and at minimum risk at the same time. As Mr. Yeng elaborated: "Because we had an existing distributor in Hong Kong and he had a lot of China connection at the time, so we went through him to negotiate a joint venture in China. We firstly set up a joint venture company in Hong Kong with this distributor in which we owned 80% of interest. Our distributor then negotiated a joint venture company with Qualin Air Conditioning (QAC) in China in which the Hong Kong joint venture holds 66%. We asked Ms Sally Harpole of Deacons in Hong Kong to help us with all the legal documents. In effort, we are holding more than 50% of interest in this Chinese Joint Venture... In this way, we could participate in the Chinese market on the one hand and escaped from the complicated bureaucratic procedures on the other!" They joint ventured with QAC because they had

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a financial problem at that time. As Mr. Yeng explained: “This State Owned Factory had a financial problem, they required some company to employ their excessive manpower which was allocated by their danwei. We were just there to fill up the gap.” However, Mr. Yeng admitted that they did not know all the details on the negotiation with their Chinese counterparts because their Hong Kong partner conducted all the negotiation.

The real negotiation

The negotiation of Donaldson Chinese joint venture was started at the beginning of 1993 and it was in operation at the end of 1994. The joint venture factory was built alongside the QAC State Owned existing factory. The QAC factory Manager, in theory, was paid to look after this joint venture operation jointly with the Hong Kong partner. But in reality, he did not actually involve in the daily operation of this venture. This joint venture employed approximately 40 workers and they were directly transferred from the original QAC State Owned factory.

From then on, negotiation has been on a daily basis. As Mr. Yeng explained: “You know because this Chinese assemble joint venture is a subsidiary of the Hong Kong office. Therefore it is quite normal for us to charge them a consultancy fee, loyalty fee and licensing fee to assemble the air filtration systems that have been patented by the US corporate head Office. The Chinese factory manager questioned about this on why they have to pay. Our initial analyses were that they processed a sceptical attitude or they had a theory of scepticism that was very popular during Mao’s period. They just criticised on everything. However, when we continued analysing their action, we realised that he may want to have the consultancy fee himself! You know the American firm must substantiate every charge and therefore we didn’t promise him because he just sat there without doing too much work for the joint venture!”

Mr. Yeng further elaborated their experience with this Chinese joint venture: “In other occasion, for example, he questioned about why the joint venture workers have higher pay than the local workers. Our subsequent analyses showed that he wanted more salary himself! The negotiation never ended. At one time, they negotiated on the Joint Venture contract terms. Some other time, they talked about different production requirements!”

The result of the joint venture

Mr. Yeng perceived that the first Danoldson joint venture in China had failed. First, the factory has been very disorganised because of the frequent intervention from this Chinese joint venture partner. Therefore, there was no profit generated from this joint venture in 1995/6 and Mr. Yeng suspected that they could have a profit for 1996/7 financial year. Second, they could not further access the market because of management disagreement with their joint venture partner. Third, they could
source the casing for their systems in China but its quality has been very inconsistent. Finally, they have not established their reputation in China because they have difficulty to further expand their operation in China.

Mr. Yeng attributed the failure of this joint venture: "I suppose the main reason for this unhappy marriage is that we have a bad "guanxi" with our PRC partner. In fact, we have never met them before we established our factory in China. Second, we should not sub-contract the negotiation to our Hong Kong distributor. Finally, we don't have mutual trust!... the situation is so bad that that we are talking about a total take over of the venture in order to save our investment in China which is another round of negotiation. We are talking about how much money we have to pay to buy up their shares subject to our evaluation of their total current and fixed asset in this venture. This is the American way of doing things, you know! However, they have different idea! They calculate their total investment from the inception of this joint venture up to this moment which is much higher than the sum of their total assets in this venture!"

Above are the general background, negotiation process and the result of this joint venture. The following is a within case analysis. Because the dependent variable, negotiation result was different from other cases, this analysis is limited to the information available that results in disappearance of some sections.

4.8.2 Within case analysis

The data provided by Donaldson suggest that their joint venture negotiation experience is highly differentiated from the joint venture negotiation model in figures 4.4 and 4.5 in chapter 4. In the following sections, their experience will be analysed. However, the format of analysis will be different from the previous six cases because of the limited information available to some research questions. For example, the negotiation process and the negotiation outcomes are totally different from other cases.

Environmental influence on joint venture negotiation

Figure 4.47 captures major episodes of Donaldson's joint venture in China. As shown, Donaldson's idea of establishing this venture concentrated on the assembly establishment to serve their existing customers in the Chinese market. They did not pay too much attention to the cultural aspect joint venture by simply sub-contracting the joint venture negotiation to their Hong Kong joint venture partner.
Figure 4.47  Evolution of Donaldson’s joint venture in China.

- Before 1992, a lot of Donaldson’s customers moved their production facilities to China.
- In response to their customers’ requests, Donaldson intended to establish a joint venture in China to look after their customers.
- Because Donaldson was conservative about the Chinese market, they did not want to get directly involved in the Chinese joint venture.
- Donaldson set up a joint venture with their distributor in Hong Kong in which they hold 80% of interest.
- They used this joint venture to negotiate for another joint venture via their distributor with a State Owned Factory Qualin Air Conditioning (QAC) which had financial difficulty at that time.
- The negotiation started at the beginning of 1993 and the joint venture assembly was established at the end of 1994. The Hong Kong joint venture holds 66% and the Chinese party holds the remaining 33%. In effect, Donaldson has over 50% of their Chinese assembly joint venture.
- Their Hong Kong distributor continued to assemble the air filtration system on licence in this venture to serve the customers in China.
- They also asked Ms Sally Harpole of Deacons to handle all the documentation of the joint venture.
- The joint venture started operations at the end of 1994. Because Donaldson never met their Chinese partner before the establishment of the Chinese joint venture, they ended up with a lot of arguments later on.
- Donaldson is now talking about a total take-over of the Chinese joint venture.
- Again, at the time of writing this report, they are arguing the terms of take over. Donaldson is talking about the total asset value while the Chinese partner is talking about their total investment in the venture.

Donaldson was irrational in making this entry mode into China because they do not have experience in dealing with a socialist country such as China. None of their production plant is situated in a communist or socialist country! Nevertheless, this irrational decision making missed the Chinese market potential that the author of this thesis will analyse in the following section.

Economic environment

Donaldson Far East Ltd. did not do a careful analysis on the Chinese market according to a set of business objectives such as market size, market share, strategic location of the factory, purpose of joint venture, goals of the venture. In fact, Mr. Yeng admitted that they just want to establish a venture there to serve their customers in China and hopefully this venture can help them to penetrate the Chinese market. Therefore, their thinking was geared toward a production-oriented concept rather than a market oriented concept i.e. how to penetrate the Chinese market. Mr. Yeng admitted that they just wanted an assembly facility in China. They did not calculate the potential gain from this joint venture, rather, they calculated the potential loss i.e. US$ 700,000. Because they had this ‘production’ concept in mind, they treated this joint venture as another factory outlet, which just so happens is in China. In saying that, they did not really want their Chinese partner’s help in the sense of market development and so forth. They only looked for a joint venture partner to satisfy the legal requirement of establishing a joint venture in China. Towards the end of the conversation with Mr. Yeng, he mentioned that they are considering establishing a manufacturing facility in the Singapore
Scientific Park. In recalling this conversation: “they said the scientific park has very good logistic facilities. Once we move in there and started our production, they will take care of everything!” His conservative attitude indicated that they are still using a production rather than a market orientation toward the Chinese market.

According to Sun, the government has approved approximately 220,000 direct foreign investment items (DFI) up to the ending of 1994. Together with the vast number of existing Chinese factories, the Chinese market actually provides enormous business opportunity to Donaldson. The Chinese market potential alone should warrant a strong encouragement rating to Donaldson. However, Donaldson’s irrational fear toward a communist country contributed to their misunderstanding in the Chinese market. Furthermore, their production oriented thinking also limited Donaldson’s intention of using China as a production centre rather than treating it as a potential market. As such, the strong encouragement rating must be painfully downgraded to a moderate rating.

Political/legal environment

As repeatedly indicated in case no. 5 and 6, Deng’s visit to the Southern part of China was a major motivation for foreign firms to establish joint ventures in China because it was a signal of political stability. The timing of Donaldson’s joint venture establishment showed that they were motivated by the Deng visit as well. However, they did not commit themselves in this market and attempted to avoid the complicated legal procedures by sub-contracting all the documentation to a legal firm. This was fine if they had also followed a learning process to learn the legal aspect of joint venture. But again they left all the details to their lawyer. In saying that, they missed out all the opportunities to learn Chinese law related to their industry which is important to their operation in the Chinese market.

The Chinese political stability strongly encourages foreign firms to engage in joint venture negotiation in China. However, Donaldson’s innocence in the Chinese legal system has negative influence on their general attitude in this dimension. Therefore, the strong encouragement rating must be downgraded to a moderate rating.

Technology environment

As mentioned, the Chinese partner Qualin Air Conditioning (QAC) wanted the Chinese joint venture to employ their excessive labour and Donaldson attempted to establish an assembly centre to assemble their air filters in China. The lack of participation of the Chinese factory manager in this venture further indicated that the Chinese side was not eager to learn foreign technology. There is also no evidence to show that Donaldson wants to use their technology as a leverage to enter the Chinese market. As such, technology transfer is not a central issue in this venture. A low encouragement rating must be given to this venture based on these arguments.
**Figure 4.48 Environment influence on Donaldson joint venture negotiation in China**

<table>
<thead>
<tr>
<th>Economic environment</th>
<th>Moderate encouragement</th>
</tr>
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<tbody>
<tr>
<td>• The Chinese market provides huge market potential to Donaldson.</td>
<td></td>
</tr>
<tr>
<td>• Donaldson’s production oriented concept constrained them to establish market objectives for the Chinese market.</td>
<td></td>
</tr>
<tr>
<td>• Donaldson’s irrational fear was a hindrance to their full participation in this market.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Political/legal environment</th>
<th>Moderate encouragement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• The Chinese political stability gives a strong encouragement to foreign firm for their joint venture negotiation in China.</td>
<td></td>
</tr>
<tr>
<td>• Donaldson’s innocence in the Chinese legal system has negative influence on their general attitude.</td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Technological environment</th>
<th>Weak encouragement</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Technology was not a main issue in this joint venture.</td>
<td></td>
</tr>
<tr>
<td>• Donaldson did not intend to use technology as a negotiation leverage to enter the Chinese market.</td>
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</tr>
</tbody>
</table>

**Organisational constraints**

Donaldson’s Hong Kong partner was responsible for the whole negotiation process with their PRC counterparts. Donaldson did not have direct communication with Chinese partner and intra-company communication between Donaldson and the Chinese partner was conducted via their Hong Kong partner. The only influence Donaldson imposed on their Hong Kong partner was the investment amount as mentioned i.e. US $700,000.

In summary, Donaldson Far East only exerted very rigorous requirement on investment amount. They had no influence or had no intention to exert influence on other decisions.

**Joint venture negotiation strategies and process**

As mentioned above, Donaldson only wanted to establish the Chinese joint venture as an assembly centre of their Hong Kong office to generate production and profit. They also wanted to detach this venture from the rest of Donaldson’s global operation because of Donaldson senior management’s conservative attitude toward the Chinese market. The joint venture arrangement as mentioned above also allows them to wash their hand just in case problem emerging from this venture at a later stage. First, this venture was not listed in the Donaldson’s 1996 annual report. Donaldson controls this joint venture via their joint venture with their Hong Kong partner. In other words, they use one joint venture to control another joint venture. Just in case the Chinese joint venture is in trouble, the
Chinese government can only trace the joint venture as far as Donaldson Hong Kong partner. This joint venture arrangement leaves the Donaldson Far East office and U.S. head office intact and clean from this venture. Second, they left all the management to the Hong Kong and Chinese partners so as to minimise their cost of management. Lastly, Mr. Yeng indicated their only concern was the possible loss not gain in this venture. All this evidence indicates that Donaldson used the Chinese joint venture as a production base rather than as a separate business operation centre.

Because of the above arrangement, they did not follow the stage-wise negotiation strategies listed in figure 3.6 in chapter 3 to negotiate a joint venture in China. They did not get involved in the actual negotiation process that was purely conducted by their Hong Kong joint venture partner. Also, the legal procedures and their documents were solely handled by their lawyer in Hong Kong. In fact, they have little exposure in all procedures related to joint venture negotiation in China. No interaction was evidenced between the Chinese partner and Donaldson before they physically established their joint venture factory in China.

**Joint venture negotiation pillar**

Because Donaldson did not get involved in the joint venture negotiation, the cultural elements mentioned in figures 3.5 and 3.6 in chapter 3 were all absent in the joint venture negotiation process. Without interaction with their Chinese partner, they did not have mutual understanding with their Chinese partner that actually limited their ability to perceive any potential problem of this joint venture. For example, Donaldson did not discuss their marketing and financial objectives with their Chinese counterparts; Donaldson did not study the bureaucratic structure of the Chinese party so as to understand their communication pattern; and Donaldson did not understand Chinese negotiators’ personal goals that may be important to future operations.

The Problem Solving Attitude (PSA) of both parties was again completely absent in this joint venture. If both parties could process the PSA and solved disagreement before the joint venture started operation, the joint venture would, most likely, proceed without any difficulty.

**Joint Venture Outcome**

Successful negotiation is a pre-requisite to obtaining a satisfactory joint venture outcome. In Donaldson’s case, they did not have a successful negotiation and therefore unsatisfactory outcomes were not surprising.
4.8.3 Conclusion

There is strong evidence to show that Donaldson did not follow the process proposed on figures 3.5 and 3.6 and therefore their joint venture negotiation in China was not successful. This is evidenced from the fact that Donaldson talked about a complete take-over of the Chinese joint venture at the time of the interview.

**Environment**

Donaldson obtained a *moderate encouragement* on economic environment. The generation of this moderate rating was not purely based on the rationale economic indicators such as economic growth and market size, but rather based on Donaldson’s management perception of market potential, production philosophy, and irrational fear of a communist country. The moderate encouragement on the economic environment also implies that Donaldson was not totally committed to the Chinese market. Therefore Donaldson simply adopted a pro-active attitude; establish the joint venture first and attempted to solve the operational problems after the joint venture had been established. Donaldson’s pro-active attitude to international market identification is not consistent with the existing literature that advocates entering a market with market potential.\(^{vii}\)

Donaldson’s lack of commitment and their pro-active attitude discouraged them to learn the legal procedures in a stable Chinese political environment which lead to a moderate encouragement rating on the political/legal environment. As mentioned in the sections 2.4.1.3 and 2.4.3 of chapter 2, the legal aspect is an extremely important aspect in Chinese joint venture negotiation and there will be renegotiation between the foreign and Chinese party even though they have signed the contract within this legal system. It implies that foreign firms should learn about the characteristics of this system and they should know how to negotiate through the Chinese legal system once they understand the characteristics of that system. Donaldson simply neglected this learning process and adopted an *avoiding strategy* as identified in section 2.3.3.13 in chapter 2 which results in a high degree of frustration for all parties involved.

Technology transfer was not an issue in this venture simply because this venture was an assembly factory and its operations were being controlled by Donaldson’s Hong Kong partner. As explained above, the moderate rating associated with the economic and political/legal environments implies that Donaldson did not have full commitment to establish all functional areas as suggested by Porter (1980)\(^{viii}\) in their Chinese joint venture assembly. The Chinese partner also did not actively seek participation in term of technology transfer in this joint venture.
Organisational constraints

Interestingly, Donaldson did not put any constraint on the Hong Kong partner/negotiator on the Chinese joint venture negotiation except in regard to the investment amount.

Joint venture negotiation strategies and process

Donaldson did not have an intention to negotiate directly with their Chinese partner. They 'sub-contracted' the joint venture negotiation assignment to the Hong Kong partner and the formulation of joint venture structure to the Hong Kong lawyer. In short, Donaldson did not have pre-determined joint venture negotiation strategy.

Joint venture negotiation pillar

As mentioned in section 2.5.4, the problem-solving attitude (PSA) and the appreciation of Chinese cultural elements are two important components in the joint venture negotiation pillar. Donaldson lacked of the motivation to equip themselves with any aspect of these two components which simply means that the joint venture negotiation was not established on a solid foundation. Therefore, the joint venture negotiation failure was not unexpected.

Joint venture outcome

In summary, Mr. Kenneth Yeng of Donaldson admitted that their joint venture negotiation with the Chinese was a failure and they were not happy with all the performance indicators.
Figure 4.49  Donaldson’s extent of adaptation on the components of the Sino-foreign negotiation model

<table>
<thead>
<tr>
<th>MODEL COMPONENTS</th>
<th>EXTENT OF ADAPTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic contexts</strong></td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td>• The analyses in figure 4.48 indicated that Donaldson had been awarded a <em>moderate encouragement</em> in their attitude toward their appreciation of the Chinese economic environment.</td>
</tr>
<tr>
<td>Political/legal</td>
<td>• The analyses in figure 4.48 indicated that Donaldson had been awarded a <em>moderation encouragement</em> in their attitude toward their appreciation of the Chinese political/legal environment.</td>
</tr>
<tr>
<td>Technology</td>
<td>• The analyses in figure 4.48 indicated that Donaldson had been awarded a <em>weak encouragement</em> in their attitude toward their appreciation of the Chinese technological environment.</td>
</tr>
<tr>
<td>Extent of adaptation</td>
<td>☒ <strong>A low to moderate adaptation</strong> is awarded to Donaldson because of the levels of encouragement in the strategic context.</td>
</tr>
<tr>
<td><strong>Organisation contexts</strong></td>
<td></td>
</tr>
<tr>
<td>Investment amount</td>
<td>• Donaldson exerted <em>strong</em> influence.</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>• Donaldson exerted no influence.</td>
</tr>
<tr>
<td>Life span of contract</td>
<td>• Ditto</td>
</tr>
<tr>
<td>Plant specification</td>
<td>• Ditto</td>
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<tr>
<td>Board representation</td>
<td>• Ditto</td>
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<tr>
<td>Expatriates’ expense</td>
<td>• Ditto</td>
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<tr>
<td>Labour allowance</td>
<td>• Ditto</td>
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<tr>
<td>Degree of technology transfer</td>
<td></td>
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<td>Transfer of logo</td>
<td>• Ditto</td>
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<tr>
<td>Transfer of intellectual property right and licensing</td>
<td>• Ditto</td>
</tr>
<tr>
<td>Extent of adaptation</td>
<td>☒ <strong>Nil to weak adaptation</strong></td>
</tr>
<tr>
<td><strong>Negotiation pillar</strong></td>
<td></td>
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<tr>
<td>Relationship culture</td>
<td>• Donaldson did not have motivation to establish relationship with their Chinese partner.</td>
</tr>
<tr>
<td>Problem-solving attitude (PSA)</td>
<td>• Donaldson did not adopt a PSA in their Sino-foreign joint venture negotiation in China.</td>
</tr>
<tr>
<td>Extent of adaptation</td>
<td>☒ <strong>Nil adaptation</strong></td>
</tr>
<tr>
<td><strong>5 stage negotiation process</strong></td>
<td></td>
</tr>
<tr>
<td>Pre-negotiation stage</td>
<td>• Donaldson did not get involved in pre-negotiation stage.</td>
</tr>
<tr>
<td>Negotiation stage</td>
<td>• Donaldson did not get involved in negotiation stage.</td>
</tr>
<tr>
<td>Post-negotiation stage</td>
<td>• Donaldson did not get involved in post-negotiation stage.</td>
</tr>
<tr>
<td>Contract-signing stage</td>
<td>• Donaldson did not get involved in contract-signing stage.</td>
</tr>
<tr>
<td>Post-contract stage</td>
<td>• Donaldson did not get involved in post-contract signing stage.</td>
</tr>
<tr>
<td>Extent of adaptation</td>
<td>☒ <strong>Nil adaptation</strong></td>
</tr>
</tbody>
</table>

The Donaldson case was a *theoretical* replication to demonstrate the importance of the Sino-foreign joint venture negotiation model that the author of this thesis proposed in figure 3.5 and 3.6 of chapter 3 and its rationale in section 2.5.4 of chapter 2. The underlying theme of this Sino-foreign joint venture negotiation is to provide a systematic approach to Sino-foreign joint venture negotiation during a foreign firm’s internationalisation into the Chinese market. The author of this thesis suggests that a foreign firm must adapt to the unique Chinese negotiation modelling process. However, Donaldson hardly adapted to this modelling process as shown by all the evidence presented in figure 4.49 above. In fact, the evidence collected from Mr. Yeng of Donaldson suggests that their main aim was to sign a joint venture contract so that Donaldson could start their assembly operation in China.
The author of this thesis suggests that the main aim of a Sino-foreign joint venture negotiation process is to establish long-term relationship through numerous interactions between a foreign firm and a Chinese firm. By establishing a long-term relationship, both parties are willing to solve problems at the implementation stage of a joint venture project. The joint venture contract, in this sense, is a signal that both foreign and Chinese parties are willing to maintain that long-term relationship. Donaldson obviously did not understand this “underlying” theme of the Sino-foreign joint venture negotiation and hence they experience a negotiation failure in their Chinese assignment.

4.9 CHAPTER CONCLUSION

The development of a case study has followed the eight research questions emerged from the literature review which were confirmed by systems theory in chapter 3 of this thesis. The full report of the six cases (literal replication) can be found in appendix e of this thesis. Only the background information and the within-case analysis of a report is presented in this chapter to save readers’ time to read through all the full reports. The full report of the Donaldson case (theoretical replication) was presented in this chapter because the logical flow of this case was different from the other six cases due to its unsuccessful negotiation experience in China.

The selection of cases followed a replication approach of a multiple-case design in figure 4.2 that was fully explained in chapter 3 section 3.3.2. Each individual case study consists of a “whole” study, in which convergent evidence is sought regarding the facts and conclusions for the case (Yin 1994). Each case’s conclusions are then considered to the information needing replication by other individual cases. As shown in the above six cases, their joint venture negotiation approaches are holistic in nature and are highly compliant with the Sino-foreign joint venture negotiation model presented in figures 3.5 and 3.6 which will be briefly summarised below. The Donaldson case is used as a contrasting case to support the need of providing a Sino-foreign joint venture negotiation model to help foreign firms recognise the importance of adapting this model. Meantime, this summary will discuss the empirical support to the proposed Sino-foreign joint venture negotiation model that forms the basis of larger argument of cross-case analyses in chapter 5 of this thesis.

4.9.1 Environment

This section is to seek convergent facts on:

- Research question no. 2 i.e. what economic, political/legal and technology factors would influence the joint venture (JV) negotiation process?
All the case evidence is convergent in a sense that they all evaluate the three environmental factors i.e. the political/legal, the economic, and the technological factors in China before they consider entering the PRC market. The convergent fact is apparent that the economic factor culminated in strong encouragement on all foreign firms to enter the Chinese market.

Evidence from other two environmental factors i.e. political/legal, and technology is not as strong as the economic factor. These two factors, however, exerted at least a moderate encouragement on foreign firms’ joint venture negotiation in China. The “at least” moderate encouragement reflects firms’ flexibility in navigating a country’s political/legal and technological environments to some extend. In other words, firms perceive the economic environment such as market potential as the utmost criterion to enter the Chinese market. Only with a secure market potential in mind would they be willing to navigate within the political/legal and technology environments with only a “moderate” encouragement. Research confirms that U.S. multinational companies can be more flexibility on other factors if the market they want to enter has a high market potential. McCarthy and Puffer (1997) reported that U.S. companies entered the Russian market because of its market potential for long term growth even they faced political uncertainty in that country.

The convergent evidence of the literal replications (6 cases) and the contrasting evidence of the theoretical replication (1 case) motivate the author of this thesis to submit all cases to a cross-case analysis in chapter 5. The cross case analyses are to obtain a definitive answer to the research question at the beginning of this section.

4.9.2 Organisational constraints

This section is to seek convergent fact on:

- Research question no. 3: what pattern of influence did the foreign firms exert on their negotiators?

Figure 4.50 A summary table of influence pattern from Corporate Head Office and Regional Head Office on foreign firms

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>IBM</th>
<th>Otis</th>
<th>Bayer</th>
<th>Asia Link</th>
<th>Kenwh</th>
<th>Synergie</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment amount</td>
<td>weak/strong</td>
<td>strong</td>
<td>Strong</td>
<td>strong</td>
<td>Moderate</td>
<td>Weak</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>weak</td>
<td>strong</td>
<td>Weak</td>
<td>strong</td>
<td>Weak</td>
<td>no</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>weak</td>
<td>strong</td>
<td>Weak</td>
<td>strong</td>
<td>Weak</td>
<td>no</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>weak</td>
<td>strong</td>
<td>Weak</td>
<td>N/A</td>
<td>Weak</td>
<td>no</td>
</tr>
<tr>
<td>Board representation</td>
<td>weak</td>
<td>strong</td>
<td>Weak</td>
<td>strong</td>
<td>Weak</td>
<td>no</td>
</tr>
<tr>
<td>Expatriates’ expenses</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>N/A</td>
<td>no</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
<td>N/A</td>
<td>no</td>
</tr>
<tr>
<td>Transfer of logo</td>
<td>Strong</td>
<td>Strong</td>
<td>No</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Transfer of intellectual property, right</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>

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Chapter 4: Case summary

The influence pattern exerted on foreign negotiators from the corporate and regional office are consolidated and presented in figure 4.50 above. Convergent evidence can be found in the dimensions of expatriates’ expenses, labour allowance, transfer of company logo, transfer of technology and the issue of intellectual property right. Expatriates’ expenses are largely determined by the domestic market conditions whilst labour allowance in China has been regulated by the Chinese government. Therefore, the corporate and regional offices simply could not exert any influence on the foreign negotiators to structure these benefits. Transfer of technology is a costly operation and actually accounts for a substantial portion of the total cost of an overseas investment project. A wrong decision on the transfer mode can cause the failure of a project and losses to both the technology transferor and the transferee. Therefore, multi-national firms such as IBM, Otis and Bayer would endeavour to control the mode of transferring their technology. The transfer of technology is not a concern to Asia Link because their joint venture is servicing in nature. As Synergie’s joint venture had three foreign and three Chinese partners and Synergie was only one of the foreign partners. Further, Synergie was mainly responsible for the marketing of the venture’s project and therefore transfer of technology was not their main concern because other foreign partners are responsible for it. The technology in Kenwan’s joint venture was low and therefore it was not a concern to them at all. Again, transfer of company logo, and issue of intellectual property right influence a global firm’s positioning and therefore foreign firms attempt to control them at all times. As mentioned in case study in appendix e, multi-national firms like IBM, Otis had protested to the Chinese government on these issues. Naturally, their head offices strictly controlled their existence in China.

Besides the above four dimensions, there seems to be no convergence in other dimensions. However, the six firms under discussion can be classified into three categories i.e. strategic business unit, regional controlled unit, and entrepreneurial in nature and the reasons of their classification were fully explained in the within-case analyses of all individual cases. It is logical to rearrange the above table according to these types of firms before a meaningful conclusion can be made.

Figure 4.51 shows the influence pattern from corporate head office and regional head office on foreign firms ordered by nature of firms. As shown, the influence pattern can be converged into three distinct formats, i.e. the strategic business unit (SBU), the regional controlled unit, and entrepreneurial types.

The corporate offices of the SBU group of companies exerted only weak influence on the negotiators except the investment amount. The corporate offices of the regional controlled group of companies exerted strong influences on the negotiators. This implies that the SBUs operate relatively independent from the corporate head offices. The only dimension that was strongly influenced by
their corporate head offices was the investment amount because it put pressure on corporate head offices’ financial resources.

The corporate offices of the regional controlled companies exerted strong influence on all dimensions. This implies that the corporate head offices of these companies had conservative attitudes on the Chinese market. As shown in the within-case analyses, Otis established a holding firm in 1997 to manage all their joint ventures in China 13 years after their first joint venture was fully operated in 1984. The establishment of their holding company as a joint venture in China is also consistent with this conservative attitude. Asia Link’s conservative attitude is understandable because the joint venture is their first in China and hence they had to tightly monitor all negotiation dimensions.

The entrepreneurial group of companies is mainly composed of two Hong Kong based companies. They are relatively smaller in size when compared with the multinational companies. Therefore, their directors were also the chief negotiators in their Chinese joint ventures and therefore they were in a position to make investment decisions. Their decision-making patterns are reflected from the nil to weak influence patterns from their head offices.

Figure 4.51 A summary table of influence pattern from Corporate Head Office and Regional Head Office on foreign firms ordered by nature of firms

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>Strategic Business Unit</th>
<th>Regional Controlled</th>
<th>Entrepreneurial</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IBM</td>
<td>Bayer</td>
<td>Otis</td>
</tr>
<tr>
<td>Investment amount</td>
<td>Weak/strong</td>
<td>strong</td>
<td>Strong</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>weak</td>
<td>weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>weak</td>
<td>weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>weak</td>
<td>weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Board representation</td>
<td>weak</td>
<td>weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Expatriates’ expenses</td>
<td>no</td>
<td>no</td>
<td>No</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no</td>
<td>no</td>
<td>No</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td>Transfer of logo</td>
<td>Strong</td>
<td>N/A</td>
<td>Strong</td>
</tr>
<tr>
<td>Transfer of intellectual property rights and licensing</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
</tr>
</tbody>
</table>

Note: N/A means not applicable. The above business operation dimension may not be applicable to some companies. For example, Bayer involves in the manufacturing of industrial products which means their products will eventually become part of the final products of their customers. Therefore, transfer of company logo is applicable to IBM’s products not Bayer’s products.

Since there is convergent evidence in the pattern of influence from corporate head offices, this section will be submitted for cross-case analysis in chapter 5. Also, the contrasting results of the Donaldson case also encourage the author of this thesis to obtain a definition answer to the research question at the beginning of this section.
4.9.3 Joint venture negotiation strategies and process

This section is to seek convergent facts on:

- question no. 4: "how did the joint venture negotiation proceed from one stage to the next?" and
- question no. 5: "how did the foreign negotiators formulate strategies and how did they respond to their PRC counterparts’ strategies?"

Convergent evidence is sighted that all foreign firms proceeded their joint venture negotiation with their PRC counterparts in a stage-wise process. This process is definitive in a sense that it is dominated by the PRC legal system as shown in figure 2.15.

Convergent evidence is also sighted from the strategies all firms used in their negotiation exercises with their Chinese counterparts. For example, all foreign firms adapted collaborative and compromising strategies in the formal negotiation stage because they understand long-term relationship must be emphasised.

The convergent evidence of the six cases (literal replications) and the contrasting evidence of the (theoretical replication) in the joint venture negotiation strategies and process suggest this section to be submitted for cross-case analysis in chapter 5. The cross-case analyses are to obtain a definitive answer to the research question at the beginning of this section.

4.9.4 Joint venture negotiation pillar

This section is to seek convergent evidence related the following two research questions:

- How important were the Chinese cultural elements e.g. "guanxi", "face", "reciprocity", "renqing", and "trust" to the joint venturing (JV) negotiation?
- How did the problem solving attitude (PSA) e.g. information gathering and need fulfilment help negotiators to negotiate?

Convergent evidence is found in the adaptation of Chinese cultural elements by foreign negotiators in "guanxi", "face", "reciprocity", and "trust" as joint venture negotiation supportive pillar. Likewise, foreign negotiators equipped themselves with PSA when they negotiated with their Chinese counterparts.

The convergent evidence in the literal replications (6 cases) and the contrasting evidence in the theoretical replication (1 case) in the joint venture negotiation pillar suggest that this section will be submitted for cross-case analysis in chapter 5. The cross-case analyses will give a definitive answer to the research question at the beginning of this section.
4.9.5 Joint venture outcome

This section is to seek convergent evidence related the following a research question:

- How satisfactory is the joint venturing (JV) outcome?

Convergent evidence is found in the evaluation of future investment and learning experience. Also, no convergence can be found in other dimensions. Reasons have to be determined in order to answer the question.

This chapter has two major findings:

- All firms’ joint venture negotiation with their Chinese counterparts were complying with the pattern predicted by the Sino-foreign joint venture negotiation model proposed in figure 3.5 and 3.6; and
- All answers to the research questions were convergent except the research question no. 8

*How satisfactory is the joint venturing (JV) outcome?*

The above two major findings help the author of this thesis:

- To conduct cross-case analyses in chapter 5;
- To establish answers to the research questions and hence the main research problem in chapter 5;
- To develop answers to the non-convergent question no 8 “*How satisfactory is the joint venturing (JV) outcome?*”
- To modify the Sino-foreign joint venture negotiation model and establish a definitive model in chapter 5 so as to add to the extant literature.

This chapter is important to the thesis development as a whole because it provides convergent evidence to the research questions that the author of this thesis put forward in chapter 2 and restated in chapter 3 of this thesis. Hence, it helps find answers for the main research problem. Also, it establishes support to the validity of the Sino-foreign joint venture negotiation model. More importantly, it provides a documentary database that the author of this thesis can draw on when he discusses the implications to policy and practice in Sino-foreign joint venture negotiation in chapter 6 of this thesis.

The work that needs to be done is to submit the all within case analyses to cross-case analysis in chapter 5. The cross-case analysis is a necessary step to do so as to write a case summary and a
recommendation. The summary and recommendation chapter also specifies actions that have to be done in order to advance research in the field of Sino-foreign joint venture negotiation.

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14 Anonymous writer (1994) “IBM to re-write PC history with PReP,” The IT magazine, may/June issue, 41-42
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ditto


China Unicom is the second largest telecommunication operator headquartered in Beijing and is the commercial arm of the Ministry of Electronics in Beijing.

China Telecom (Hong Kong) Limited Global Offering Prospectus.


China Telecom (Hong Kong) Limited Global Offering Prospectus.


China Telecom (Hong Kong) Limited Global Offering Prospectus.


China Telecom (Hong Kong) Limited Global Offering Prospectus.

ditto
ditto
ditto

ditto


For a model of relationship process, please see Leung, TKP; Wong, YH; and Tam, J (1995) “Adaptation and the Relationship Building Process in the People’s Republic of China (PRC),” *Journal of International Consumer Marketing,* Vol 8 (2), 7-26

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CHAPTER 5 CROSS-CASE/SITE ANALYSIS AND DISCUSSION

5.1 INTRODUCTION

Chapter 1 mainly identified that the major source of differences in Sino-foreign joint venture negotiation is originated from the different perception of Western and Chinese negotiators of the four variables, i.e. the strategic environmental context, the organisational context, the negotiation process and the negotiating culture. In this contextual environment, Sino-foreign joint venture negotiation is actually an internationalisation process that the above four variables must be studied and integrated to generate a Sino-foreign joint venture negotiation model. By studying the Western transaction and the Chinese relationship paradigm on joint venture negotiation in chapter 2, Western firms attempt to use a universal approach whereas the Chinese tend to adopt a unique holistic process in a sense that relationship is emphasised in the whole joint venture negotiation process. The issue of universal versus unique in Western and Chinese paradigms gave birth to a set of research questions that was subsequently verified in term of System Theory in chapter 3. This set of research questions became a major part of a research protocol. By establishing the similarities and differences between the Western transaction and the Chinese relationship paradigm, an analytical model was perceived which helps the conceptualisation of a preliminary Sino-foreign joint venture negotiation that was pilot tested. The author of this thesis also justified that case study method is the best methodology for conducting this study and its quality assurance system was in place before fieldwork was carried out.

The author of this thesis, after the within case analysis in chapter 4, found that all firms’ joint venture negotiation with their Chinese counterparts were in compliance with the pattern predicted by the Sino-foreign joint venture negotiation model proposed in figure 3.5 and 3.6. Also, all answers to the research questions were convergent except the research question no. 8 “How satisfactory is the joint venturing (JV) outcome?”

Previous chapter findings affect the construction of this chapter. Because convergent evidence was found and the validity of the sino-foreign joint venture negotiation was preliminarily approved in the within case analyses in chapter 4, this chapter aims at building on chapter 4 to provide a cross-case/site analysis to compare the independent conclusion of the six cases. The comparison of the six cases (case no.1 to 6) in chapter 4 ascertained the level of support for the underlying theoretical
framework confirmed in Chapter 3 figures 3.5 and 3.6. By following the replication logic described in Chapter 3, the purpose of this chapter is to see how well the empirical data generalises to the theoretical templates confirmed in figure 3.5 and 3.6. The generalised results of case no. 1 to 6 (literal replications) will then be compared to case 7 (theoretical replication) to ascertain that generalisation is valid i.e. what happens if foreign firm does not follow the model suggested in figure 3.5 and 3.6 in chapter 3.

This chapter contributes to the overall development of the thesis:

- It provides compelling evidence that the model presented in figure 3.5 and 3.6 is valid;
- It supplies compelling evidence to answer the set of research questions that the author of this thesis established in chapter 2 and confirms in chapter 3;
- It derives answer to the main research problem that the author presented in chapters 1 and 2; and
- It generates database to give valid recommendations on policy implications and practice in chapter 6 of this thesis.

The complete thesis will then contribute to that part of the Chinese literature in Sino-foreign joint venture negotiation.

As indicated in figure 5.1 below, this chapter is to provide cross case/site analyses and conclusions based on the individual case conclusions in chapter 4 to generate compelling evidence on the phenomena under study i.e. Sino-foreign joint venture negotiation. In addition to draw cross case/site conclusions, modification of models proposed in figures 3.5 and 3.6 in chapter 3 will also be made in this chapter.
Figure 5.1  The relationship of case case/site analyses to the overall research design

The figure indicates that the theory development, case selection, formulation of research protocol and conduct of individual studies have already been carried out in previous four chapters. This chapter is to continue from chapter 4 to draw cross case/site analyses and conclusions based on the individual case conclusions in chapter 4 on the phenomena under study i.e. sino-foreign joint venture negotiation that the author of this thesis had developed it in chapter 2 of this theory. In addition to draw cross case/site conclusions, modification of models proposed in figures 3.5 and 3.6 in chapter 3 will also be made in this chapter.

5.1.1 Chapter objectives

The objectives of this chapter are:

- To compare the six cases (literal replications) developed in chapter 4 so as to establish the extent of generality of a finding;
- To contrast the above six cases (literal replications) with case no. 7 (theoretical replication) developed in chapter 4 to confirm the model suggested in figure 3.5 and 3.6 in chapter 3;
- To provide answers to the research questions listed in figure 3.7 in chapter 3; and
- To modify the Sino-foreign joint venture negotiation models that the author of this thesis proposed in figure 3.5 and 3.6 of chapter 3 of this thesis.

5.1.1 Chapter structure

This chapter is divided into the following sections. Section 5.1 is an introduction section to chapter objectives, chapter structure and report format and tools of analyses. Sections 5.2 to 5.6 are within case/site analyses on the individual case conclusions in chapter 4 to establish generalisation of the theoretical templates proposed in figure 3.5 and 3.6. The cross case/site analyses sections are:

- Environmental impact on foreign joint venture negotiation,
- Extent of influence,
- Negotiation process and strategies,
- Joint venture negotiation pillar, and
- Joint venture outcomes

Section 5.7 is a to contrast the cross case/site analyses of the six cases (theoretical replications) to the Donaldson case (a literal replication) to ascertain the generalisation of the models proposed in figure 3.5 and 3.6.

Section 5.8 is to provide answers to the research question listed in figure 3.7 of chapter 3:

- What economic, political/legal, and technological factors will influence the negotiation process?
- What influence did foreign firms’ corporate offices exert on their negotiator?
- How does the joint venture negotiation proceed from one stage to the next?
- How do the foreign negotiators formulate strategies and how do they respond to their PRC counterparts’ strategies?
- How important are the Chinese cultural elements e.g. “guanxi”, “face”, “reciprocity”, “renqing” and “trust” to the Joint Venturing (JV) negotiations?
- How does Problem Solving Attitude (PSA) e.g. information gathering and need fulfillment help negotiators to negotiate?
- How satisfactory is the joint venture (JV) outcome?
Section 5.9 is to modify the Sino-foreign joint venture negotiation model based on the conclusions of the research questions. Section 5.10 is a chapter conclusion.

5.1.2 Report Format and tools of analyses

This section is to present the reporting format and the tools used in the cross case analyses as mentioned section 5.1.2. As mentioned above, the cross-case/site report consists of five sections. The tools used in these five sections are briefly described below.

5.1.2.1 Environmental Impact on Foreign Joint venture Negotiation

Meta-matrices are used in this section. Meta-matrices are master charts assembling qualitative data from each of several sites in a standard format. The simplest from is a juxtaposition of all single-case/site summary tables on one very large summary table. The basic principle is to include all relevant data in this giant summary table so that further analysis is possible (Miles and Huberman 1984, 1994).

The author of this thesis will show the procedures of using meta-matrices by using an example. Figure 5.2-a site ordered meta-matrix of economic environmental impact is actually a summary that summarises all the economic findings of the six cases (literal replications). It is a summary table of all economic findings in figures 4.6, 4.13, 4.20, 4.27, 4.34 and 4.41. This meta-matrix has four characteristics:

- It is site-ordered to give readers a systematic organised total picture of economic influence on firms 1 to 6;
- It shows a total picture of the level of economic encouragement on firms 1 to 6. For example, all 6 firms have a strong encouragement rating;
- Each influence is labelled with a category-grounding phrase or code (Miles and Huberman 1984, 1994). For example, “huge economic growth encouraged IBM to negotiate joint venture projects in China” is labelled as “General growth” because the general economic growth was a major influence on IBM to negotiate joint ventures in China. This labelling procedure is identical to factor analysis in quantitative analysis and enables the author of this thesis to label all texts with the same meanings with a category 'grounding phrase'. This procedure helps to produce convergent evidence for all firms in the subsequent analysis;
- Each influence is dichotomised into a positive or negative qualification to show whether it has positive or negative impact on a firm. This procedure enables the author of this thesis to group all economic influences to see whether they have positive or negative impact on firms’ joint venture negotiation in China.
The above four procedures enable the authors of this thesis to transform all economic influences into a clustered summary as show in figure 5.3 without any information lost. This cluster summary table is useful because it actually shows the degree of convergence of a factor by simply counting the number of firms bearing that factor. For example, the general economic growth had positive influence on all 6 firms that actually motivated them to negotiate joint venture projects in China. The readers should note that the huge meta-matrix figure 5.2 is reduced to a condensed clustered summary table without any information lost. The triangulation procedures transform the economic evidence on the meta-matrix into convergent factors that show positive or negative influence on foreign firms in their joint venture negotiation. The application of these triangulation procedures enables the author of this thesis to answer research question:

- What economic, political/legal, social, and technological factors will influence the negotiation process?

These triangulation procedures are consistent with that of Miles and Huberman (1984, 1994) when they analysed the interviewing data of teachers attached to five schools on environmental improvement.

### 5.1.2.2 Extent of Influence

A site-ordered summary table is used in this section because it allows the researcher to condense all information into one large summary table and compare the extent of influence across sites. The triangulation procedures on applying a site-ordered summary table in this section are detailed below:

- Figure 5.8 is “a site-ordered extent of influence from corporate head office and regional head office on foreign negotiators” which is a summary table of figures 4.7, 4.14, 4.21, 4.28, 4.35, and 4.42.
- Based on this site-ordered summary table, the researcher can instantly detect convergent evidence on individual types of decisions. For example, the corporate and regional head office exerted no influence on all sites in the decisions of “expatriates’ expense” and “labour allowance”. The detection of the convergent evidence enables the author of this thesis to seek explanation on this pattern of decision making. However, no other convergent evidence on other decisions can be detected.
- The author of this thesis then re-arranged the site-ordered summary table into a clustered and site-ordered summary table figure 5.9. This table clustered the firms according to three types of degree of control 1) strategic business unit (SBU), 2) regional controlled unit (RCU), and 3) entrepreneurial unit as mentioned in the within-case/site analyses in chapter 4. Again, convergent evidence on other decisions can then be detected in other decisions such as “dividend
arrangement". The detection of convergent evidence enables the author of this thesis to seek explanation of these patterns of decision making.

The application of the above three procedures allows the author of this thesis to systematically analyse the influence exerted from the corporate and regional head office on foreign negotiators and hence answer the second research question:

- What pattern of influence did the foreign firms exert on their negotiators?

These triangulation procedures are consistent with that of Miles and Huberman (1984, 1994) when they classified the level of government influence on school objectives.

5.1.2.3 Joint venture negotiation strategies and process

A clustered and site-ordered summary table is used in this section to analyse the joint venture negotiation process and strategies. The clustering arrangement follows the order of last section: 1) the business strategic unit (SBU), 2) the regional controlled unit (RCU), and 3) the entrepreneurial unit. The author of this thesis will use figure 5.10 to illustrate the procedures of the clustered and site-order summary table:

Figure 5.10 is a clustered and site-ordered negotiation process and strategies summary table that summarises all information of negotiation process and strategies from figures 4.8, 4.15, 4.22, 4.29, 4.36, and 4.43;

- The summary table allows the author of this thesis to compare the degree of matching i.e. strong, moderate, weak and nil across cases/sites and establish convergent evidence on firms' joint venture negotiation process and strategies. For example, all cases/sites exhibit a strong match with the ideal process and strategies at the pre-negotiation stage on figure 3.5 and 3.6 in chapter 3 except Kenwah that obtained a moderate degree of matching. The result of this matching exercise triggers the seeking of explanation for the reasons on the strong and moderate matching.

The application of the above procedures allows the author of this thesis to systematically analyse the level of matching of the actual negotiation process and strategies with the ideal on figure 3.5 and 3.6 in chapter 3. The construction of this meta-matrix is to seek answer for two research questions:

- How does the joint venture negotiation proceed from one stage to the next?
- How do the foreign negotiators formulate strategies and how do they respond to their PRC counterparts' strategies?
The application of the above matching procedures is consistent with those of Yin (1994) to describe qualitative data analysis procedures.

### 5.1.2.4 Joint venture negotiation pillar

As mentioned in section 2.5.4 of chapter 2, the joint venture negotiation pillar consists of two components: 1) the Chinese relationship culture and 2) the psychological aspect of negotiation (problem solving attitude, PSA). This section is to describe the reporting format of these two components.

#### A) The Chinese relationship culture

Clustered and site-ordered summary table (Figure 5.11) and clustered cultural element evidence ordered meta-matrix (Figure 5.12) are used to triangulate all Chinese relationship cultural variables.

- Figure 5.11 is a clustered and site-ordered summary table that summarised all information of level of influence from the Chinese cultural elements on joint venture negotiation from figures 4.9, 4.16, 4.23, 4.30, 4.37, and 4.44;
- The summary table allows the author of this thesis to compare the level of influence i.e. strong, moderate, weak and nil across cases/sites and establish convergent evidence of level of influence coming from the Chinese cultural elements on joint venture negotiation. For example, all cases/sites unanimously experienced a strong influence from four Chinese cultural elements i.e. guanxi, face, reciprocity, and trust. Only one Chinese cultural element, renqing, did not unanimously exert strong influence on firms’ joint venture negotiation process in China. The result of this triangulation exercise triggers the seeking of explanation for reasons of the evidence.

After explanations on the cultural influence were obtained, a clustered cultural element evidence ordered meta-matrix (figure 5.12) is used to establish convergent evidence on practising these cultural elements in Sino-foreign joint venture negotiation. The procedures of applying this clustered cultural element ordered meta-matrix are outlined below:

- Figure 5.12 is a clustered cultural element ordered meta-matrix that summarises and clusters all evidence according to individual Chinese cultural elements, i.e. guanxi, face, reciprocity, renqing, and trust. The evidence was directly triangulated from figure 4.9, 4.16, 4.23, 4.30, 4.37, and 4.44;
- As indicated in Chapter 4, the texts with the same meaning was entered as data on these six tables via the coding method as suggested by Miles and Huberman (1984, 1994). For example, the code of long-term relationship was entered on figure 4.9, 4.16, 4.23, 4.30, and 4.44 because this
evidence was sighted in all cases/sites under the *guanxi* variable. The detection of this common code on all six cases/sites initiated the author of this thesis to enter this code as convergent evidence (6 firms) on figure 5.12. However, codes were not necessary “common” and convergent to all six cases/sites. Therefore, they were entered as evidence to support the level of influence of that Chinese cultural variable; and

- The evidence collected under individual Chinese cultural variables is submitted for further analyses in this section.

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**B) Problem Solving Attitude (PSA)**

Clustered and site-ordered summary table and site-ordered meta-matrix are used for analysing PSA in this section.

Figure 5.13 is a clustered and site-ordered summary table on Problem-solving Attitude (PSA). The procedures and rationales of constructing figure 5.13 are identical to those of the clustered and site-ordered summary table on cultural influence.

As mentioned in section 2.3.3.2.1 of chapter 2, PSA consists of 2 two components: 1) information collection and 2) information exchange. These two components will be analysed by using a site-ordered meta-matrix.

The author of this thesis will use an example to illustrate the procedures of constructing the site-ordered meta-matrix:

- The evidence related to information collection on figures 4.10, 4.17, 4.24, 4.31, 4.38, 4.45 will directly be transferred to figure 5.14-site-ordered meta-matrix of information collection;
- Because of its site-ordered characteristics, the author of this thesis can look at the systematically organised total picture of foreign companies’ methods of information collection;
- All the information collection evidence is labelled with a category-grounding phrase or code (Miles and Huberman 1984, 1994). For example, the IBM evidence “searched for potential projects from the Chinese government priority list which were subsequently validated by their *guanxi* members” is labelled with “Formal Information Search” because its source of information was from the government and the method of approaching the government was considered as formal. The idea of giving labels to all evidence is to seek a convergent way of collecting the information;
- Unlike the procedures specified in the “Environmental Impact on Foreign Joint venture Negotiation” section, the evidence will not be dichotomised into positive or negative qualification simply because the method of information collection is a supporting function to the joint venture
negotiation exercise. If negotiators consider the method of collecting information ineffective, they simply discard that method;

- The evidence, after labelling, will be transferred to a clustered summary table (figure 5.15) according to the method of collecting information. For example, all six firms used “field observations” when they collected information to help their joint venture negotiation with their Chinese counterparts. By looking at the number of firms using a particular method, the author of this thesis can conclude whether that method is convergent.

The same procedures will be used to analyse the component of “Information Exchange”. The triangulation procedures are consistent with those of Miles and Huberman (1984, 1994) when they analysed the individual and institutional concerns of school implementation program.

The analyses of the Chinese relationship culture and foreign negotiators’ problem solving attitude (PSA) help answer the following two research questions:

- How important are the Chinese cultural elements e.g. “guanxi”, “face”, “reciprocity”, “renqing” and “trust” to the Joint Venturing (JV) negotiations?
- How does Problem Solving Attitude (PSA) e.g. information gathering and need fulfilment help negotiators to negotiate?

5.1.2.5 Joint venture outcome

The tools used in this section to analyse the joint venture outcome are a clustered and site-ordered summary table and site-ordered meta-matrix. The procedures of applying these two tools are identical to the procedures in 5.1.3.1 above.

The analyses help answer the last research question:

- How satisfactory is the joint venture (JV) outcome?

5.2 ENVIRONMENTAL IMPACT ON FOREIGN JOINT VENTURE NEGOTIATION

As mentioned in section 2.5.4 of chapter 2, there are four types of environmental impacts on firms when they entered the Chinese market i.e. 1) economic environment, 2) political / legal environment, 3) cultural environment and 4) technological environment. However, the Chinese relationship culture is too important to be part of the negotiation pillar rather than simply acting as a function in the Sino-foreign joint venture negotiation model according to System Theory (Checkland 1981; Butterly 1988).
Therefore, this section is to discuss the three environmental impacts on Sino-foreign joint venture negotiation, i.e. economic environment, political/legal environment and technological environment. The Chinese relationship culture will be discussed in section 5.5- joint venture negotiation pillar. As mentioned in section 5.1.3, meta-matrices will be used in this section.

5.2.1 Economic Impact

Figure 5.2 summarises the economic impact on all interviewed firms with successful negotiation experience in China. As mentioned in section 5.13, all evidence related to economic influences are transferred to this meta-matrix on a site-ordered format. Each economic influence is labelled with a category-grounding phrase or code and its impact on a particular firm is dichotomised into positive or negative qualification to show the effect of that economic influence on Sino-foreign joint venture negotiation as explained in section 5.1.3.1 (Miles and Huberman 1984). For example, “huge growth encouraged IBM to negotiate joint venture projects in China” is categorised and labelled as “General growth” because it indicates general economic growth which has a positive (+) impact on IBM’s joint venture activities in China. On some special influence, two categorisations are given to reflect its influences on those two categories. For example, “competitors’ activities directed their geographical selection” of IBM is classified under two categories i.e. competition and strategic growth because the phrase involved competition and IBM strategic selection of market entry due to that competition. When the categorisation and the qualification of impact have been finished on all the firms, there is no negative qualification associated with any influence, and that coincides with the strong rating given to all firms.

These positive factors are clustered in Figure 5.3. As indicated, all firms (6) recognised that “general economic growth” is a very important factor for them to negotiate for joint venture projects in China. These firms also selected major locations to establish their joint ventures. These locations are “strategic locations” in nature because they have experienced higher economic growth than other economic cities since China has opened its economy to the outside world. Also, these cities normally have efficient infrastructure facilities such as communication, electricity supply, transportation, and material procurement. For example, Shanghai has been a major industrial city in China that has experienced high growth in the chemical sector. The Chinese Government also supports its economic growth by building up good infrastructure facilities. In view of the economic growth and the government action, three of the Bayer’s joint ventures were established in Shanghai.

Good perception on the general growth in the Chinese market enable them to have market appreciation and seek growth opportunity in this market whilst their perception on strategic growth in certain part of China allow them to designate their marketing activities to certain strategic cities and hence their negotiations assignment. These two factors are ‘driving engines’ to initiate foreign firms
to carefully plan their joint venture negotiation in the PRC through market analyses, objective settings and so forth. The findings are consistent with a report published by the Lausanne International Management Development Association in 1996 on 2,500 members of international firms. This report recognises China has the highest “investment attractiveness” (Anonymous author, Hong Kong Economic Times 18/3/96).

According to figure 5.3, either intense or limited competition can attract foreign firms to negotiate joint venture projects in the PRC. Intense competition in the important Chinese market means threat to global firms because of the issue of global market share. For example, Otis predicts that the Chinese market will become the largest single market in the global market place. Intense competition without Otis’ presence in this market simply means that Otis will lose global market share. Under this rationale, foreign firms with global presence must make a strategic decision to enter this market to maintain their global market share. On the contrary, limited competition provides opportunity to firms to enter this emerging world market. IBM, Otis, Bayer and Asia Link entered the Chinese market obviously because of the former and Synergie intruded this market due to the latter reason. However, competition is not the only and necessary strategic reason besides strategic growth to enter a particular market. For example, Kenwah entered the Chinese market because of the availability of marketing channel and the saving of manufacturing cost.
### Figure 5.2  A Site-ordered Meta-Matrix of economic environmental impact

<table>
<thead>
<tr>
<th>Company</th>
<th>Encouragement Level</th>
<th>Reasons</th>
<th>Impact</th>
</tr>
</thead>
</table>
| **IBM** | Strong              | - Huge growth encouraged IBM to negotiate joint venture projects in China *(General growth).*  
- Competitors’ activities directed their geographical selection *(Competition and strategic growth).*  
- Rich human resources enable IBM to operate effectively in China *(Availability of resources).* | +      |
| **Otis** | Strong              | - Huge growth encouraged Otis to negotiate for joint ventures in China *(General growth).*  
- Economic growth in strategic cities directed Otis to establish joint ventures in these cities *(Strategic growth).*  
- Aggressive competitive actions have been putting great pressure on Otis to increase their effort to negotiate joint ventures in the future *(Competition).* | +      |
| **Bayer** | Strong              | - Strong growth encouraged Bayer to negotiate joint venture *(General growth).*  
- High growth in individual cities or industrial centres directed Bayer to joint venture with potential partners in these places *(Strategic Growth).*  
- Strong competition initiated Bayer to negotiate a large number of projects simultaneously *(Competition).* | +      |
| **Asia Link** | Strong              | - High economic growth enables China Unicom continued to expand their mobile network that benefits Asia Link’s development *(General growth).*  
- Growth in domestic demand within the Guangdong province directed Asia Link to enter this market *(Strategic growth).*  
- Intense competition initiated Asia Link to enter *(Competition).*  
- Telecommunication in China will continue to grow especially in some prosperous areas *(Strategic growth).* | +      |
| **Kenwah** | Strong              | - Mr. Li’s Chinese background enabled him to understand the general economic growth in the Chinese market and the sales data to the state owned factory indicated excellent domestic growth *(General growth and Strategic growth).*  
- Good relationship with local wholesalers and retailers give Kenwah a lot of support in edible oil distribution *(Distribution network).*  
- Economy of scale means Kenwah have lower cost structure which is a competitive advantage in that region *(Cost advantage).* | +      |
| **Synergie** | Strong              | - Enormous market growth and profit potential exists in the computer graphic application market *(General growth).*  
- By providing preferential tax treatment, Shenzhen strategically positions itself as a high tech area *(strategic growth).*  
- Competition is minimal; there are only two computer graphic application companies in China which have obtained manufacturing licenses *(Competition).*  
- All joint venture partners are well known in the computer graphic application field *(Availability of resources).* | +      |
Summary

In summary, "general economic growth" is a compelling factor to influence foreign firms to negotiate joint ventures in the Chinese market because it has unanimous agreement among all six firms under study. In addition to firms' decisions to negotiate a Chinese joint venture, foreign firms prefer negotiating joint ventures in some cities that are strategically important in terms of higher economic growth and good government support in infrastructure facilities. Competition is a strong but not necessary reason to initiate negotiation because firms may enter the Chinese market due to availability of marketing channels and saving of manufacturing cost (Kenwa).

Figure 5.3  Clustered Summary Table on Positive Economic influence

<table>
<thead>
<tr>
<th>Categorisation</th>
<th>Case mentioned</th>
<th>No. of cases</th>
<th>Illustrations</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic growth</td>
<td>IBM, Otis, Bayer,</td>
<td>6</td>
<td>• General economic growth in the Chinese market encouraged their investment.</td>
</tr>
<tr>
<td></td>
<td>Asia Link, Synergie,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kenwa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic growth</td>
<td>IBM, Otis, Bayer,</td>
<td>6</td>
<td>• Specific growth in strategic cities directed them to joint ventures in those cities.</td>
</tr>
<tr>
<td></td>
<td>Asia Link, Synergie,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Kenwa</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Competition</td>
<td>IBM, Otis, Bayer,</td>
<td>5</td>
<td>• Intense competition activated their participation (IBM, Otis, Bayer, Asia).</td>
</tr>
<tr>
<td></td>
<td>Asia Link, Synergie</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Availability of marketing channel</td>
<td>Kenwa</td>
<td>1</td>
<td>• Limited competition encouraged their participation (Synergie).</td>
</tr>
<tr>
<td>Cost advantage</td>
<td>Kenwa</td>
<td>1</td>
<td>• Good relationship has been established with distribution channel.</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Production in China reduced manufacturing cost.</td>
</tr>
</tbody>
</table>

5.2.2 Political/legal impact

The political/legal influences on firms are summarised on a meta-matrix figure 5.4 in a site-ordered format. Likewise, each political/legal influence is labelled with a category-grounding phrase or code and its impact on a particular firm is dichotomised into positive/negative qualification (Miles and Huberman 1984 and 1994) as explained in section 5.1.3.1. Unlike economic influence, the political/legal environment in China has positive/negative impact on these firms. These positive/negative qualifications produced moderate ratings on all firms except Kenwa that has a strong rating because all political/legal impact on them was perceived to have positive qualification.
Besides the stable political environment applicable to all firms, Kenwah processed distinctive advantages to enter the Chinese market because 1) one of their directors, Mr. Li, received his education in China so that he understood the legal system in China; and 2) Mr. Li's excellent guanxi with his partner help him cut through all the bureaucratic red tape in the Chinese market. Xin and Pearce (1996) agree that small private company executives seek to compensate for their lack of formal institutional support such as huge capital by cultivating personal connections. These small company executives compensate their formal organisational disadvantages such as lack of huge capital by building good guanxi with government officials to protect their investment in China. As Xin and Pearce (1996) predict, Synergie, a relatively small company compared to other foreign firms in this study, entered the Chinese market through the help of bureaucrats. The Shenzhen City Government, which subsequently became one of Synergie Chinese parties, gave them help to establish their software joint venture in China. Xin and Pearce (1996) call this help "institutional support". A typical example on political influence was cited in the Hong Kong Economic Times. Ms Cheng Ming-ming, a popular Hong Kong cosmetician who wanted to establish her cosmetic school but had been refused by various city authorities because of her school's Westernised name which did not conform to Chinese national culture. She kept on going to various government departments asking the question of how to maintain the school name which was important to promote business in China. All the government departments concerned gave her ambiguous answers on the issue. However, once she was elected as one of the National People's Congress member as the author of this thesis mentioned in section 2.4.1.3.3 of chapter 2, the bureaucrats in China answered every bit of her questions. She eventually set up her school chain in China with a Westernised name. Commented by Ms. Cheng: "political capital is very important, don't forget to bring this capital when you go into China!" (HK Economic Times, 13/1/1997).
### Figure 5.4 Site-ordered Meta-Matrix of political/legal environmental impact

<table>
<thead>
<tr>
<th>Company</th>
<th>Encouragement Level</th>
<th>Reasons</th>
<th>Impact</th>
</tr>
</thead>
</table>
| **IBM** | Moderate            | - Stable political environment has positive influence on IBM's joint venture negotiation (political environment).  
- IBM did not have any preferential treatment within the PRC legal system (indifferent tax treatment). | + |
| **Otis** | Moderate            | - Stable political environment encourages Otis to negotiate for joint venture (political environment).  
- Lack of clear guideline within the Chinese legal system has a negative effect on Otis' negotiation progress (lack of legal guidance).  
- Planning chaos within the legal framework may hinder Otis' negotiation of joint venture projects in China (planning chaos). | + |
| **Bayer** | Moderate           | - Political environment has been very stable after Deng Xiaoping's famous visit to the Southern part of China (political environment).  
- Vigorous implementation of intellectual property right adds confidence to the Chinese legal system (legal confidence).  
- Bureaucratic attitudes deferred timing of establishment joint venture (bureaucratic red tape). | + |
| **Asia Link** | Moderate         | - Stable political environment has positive influence on the telecommunication market (political environment).  
- Uncertain legal environment may change the rules of the game and change Asia Link's marketing and logistic activities (lack of legal guidance).  
- The absolute dominance of China Merchant Group within the Chinese bureaucratic system may limit Asia Link's control in the joint venture (bureaucratic red tape). | + |
| **Kenwah** | strong             | - Political environment has been very stable after Deng's visit to the Southern part of China (political environment).  
- Mr. Li has a good understanding in Chinese legal system because he received his education in China (legal confidence).  
- The factory manager's good guanxi with local officials cut through the bureaucratic red tape in the Chinese legal system (bureaucratic help). | + |
| **Synergie** | Moderate           | - Stable political environment has very positive influence on Synergie's development in China (political environment).  
- The involvement of Shenzhen government in the approval process is a definite advantage to the establishment of this venture in China (bureaucratic help).  
- Shenzhen provided favourable tax arrangement to foreign investors in Hi-Tech information industry (preferential tax treatment).  
- Different interpretation of laws within the same legal system by different regional government force the foreign partners to adapt very flexible attitude in establishing this joint venture (lack of legal guidance).  
- The giving of empty promises by the Chinese government officials produced confusion (bureaucratic red tape). | + |
These positive/negative factors are clustered in figure 5.5. As indicated in figure 5.5, there are four positive factors. The four positive factors include 1) political environment, 2) legal confidence, 3) bureaucratic help and 4) preferential tax treatment. The evidence of political stability is a major compelling criterion for foreign firms to invest in China. This factor has been cited by all firms that have successfully established joint ventures in China. Other than this major category, firms’ perceptions of impact from these categories varied. Two firms, Bayer and Kenwha, have

**Figure 5.5  Clustered Summary Table on Political/Legal Encouragement Factors**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Case mentioned</th>
<th>No. of cases</th>
<th>Illustrations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive factors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political environment</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwha, Synergie</td>
<td>6</td>
<td>• Stable political environment encouraged joint venture negotiation in China (all firms).</td>
</tr>
<tr>
<td>Legal confidence</td>
<td>Bayer, Kenwha</td>
<td>2</td>
<td>• Vigorous implementation of law protection encouraged investment (Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Good understanding in the legal system encouraged investment (Kenwha).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Good guanxi cut through bureaucratic red tape (Kenwha).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The involvement of government as a partner cut through the bureaucratic red tape (Synergie).</td>
</tr>
<tr>
<td>Bureaucratic help</td>
<td>Kenwha, Synergie</td>
<td>2</td>
<td>• Favourable tax arrangement encouraged investment (Synergie).</td>
</tr>
<tr>
<td>Preferential tax</td>
<td>Synergie</td>
<td>1</td>
<td>• Deferred negotiation progress (Otis).</td>
</tr>
<tr>
<td>treatment</td>
<td></td>
<td></td>
<td>• Unstable legal constraints may change the rule of the game (Asia Link).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Different law interpretation by different regional government limited geographic selection (Synergie).</td>
</tr>
<tr>
<td><strong>Negative factors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of legal guidance</td>
<td>Otis, Asia Link, Synergie</td>
<td>3</td>
<td>• Bureaucratic attitude deferred establishment of joint venture (Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The absolute dominance of China Merchant Group within the Chinese bureaucratic system may limit Asia Link’s control in the joint venture (Asia Link).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The giving of empty promises by the bureaucratic deferred negotiation progress (Synergie).</td>
</tr>
<tr>
<td>Bureaucratic red tape</td>
<td>Bayer, Asia Link, Synergie</td>
<td>3</td>
<td>• Lack of preferential tax treatment may slow down investment (IBM).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Planning chaos deferred progress of negotiation (Otis).</td>
</tr>
</tbody>
</table>
confidence in the legal system. Bayer showed their confidence by establishing 10 joint ventures in China starting 1994 because of the Chinese Government’s rigorous implementation of law protection on investment and Kenwah indicated their confidence because their director, Mr. Li had in-depth understanding in the Chinese legal system.

As mentioned above, Kenwah and Synergie obtained bureaucratic help. Kenwah established their connection with the bureaucrats in their investment location via their guanxi with the factory manager mentioned in case 5 and Synergie built up their guanxi with the Shenzhen City government through their guanxi network as mentioned in case 6. Also Synergie was encouraged to invest in the Shenzhen City because it provided preferential tax treatment to foreign investor.

Out of these four positive factors, only the “stable political environment” factor is compelling because it obtained unanimous agreement from all firms. The other three factors i.e. “legal confidence”, bureaucratic help”, and “preferential tax treatment” are important but not compelling evidence to encourage firms negotiating joint venture projects in China.

As indicated in the clustered summary table on political / legal encouragement factors figure 5.5, there are four negative factors to ‘discourage’ firms to negotiate joint venture projects in China i.e. 1) lack of legal guidance 2) bureaucratic red tape 3) indifference tax treatment and 4) planning chaos. Out of these four negative categories, the “lack of legal guidance” and the “bureaucratic red tape” are major factors within the Chinese bureaucratic system to discourage foreign firms to negotiate joint venture projects in the Chinese economy. Four out of the six firms under study i.e. Otis, Bayer, Asia Link, and Synergie experienced difficulties related to these two factors.

“The lack of legal guidance” is not abnormal in a planned economy because the legal system is evolving with the Chinese economic policy. The legal environment has been evolving and hard to follow in general. For example, case 4 indicated that Asia Link signed up a joint venture contract with China Merchant Group to supply technology and capital to China Unicorn which was established in 1993 and supervised by the Ministry of Electronics. This objective was to induce competition in the telecommunication industry that had been monopolised by China Telecom. However, the Chinese Government has already changed the structure in the telecommunication market by grouping the China Telecom and China Unicorn together and put them under the supervision of one newly created ministry after the Asia Link was interviewed 11 months ago (Hong, 1998). This change put pressure on Asia Link to adjust to the new legal environment. The change seems to continue. The Chinese Government is now talking about to detach the State-owned Enterprises (SOEs) from their industrial ministries and all SOEs will be supervised by the State Council (Oriental News 30/11/98 B3). The implication is that their ministries can no longer protect these SOEs. This governmental action is to increase economic efficiency of the SOEs which certainly puts pressure on SOEs such as China Telecom and China Unicom because now they have to find new ways such as cost cutting to improve
their efficiencies. As a result, Asia Link’s joint venture in China may have to respond by supplying goods and services to China Unicom at a lower price.

Another factor in the Chinese legal system that hinders the foreign joint venture negotiation is that different bureaucrats will have different interpretation of laws related to the same subject. This implies that co-ordination among different departments is limited and the problem of “bureaucratic red tapes” will certainly hinder the development of foreign joint ventures in China. Otis found this deferred their negotiation and Synergie reckoned that they needed to limit the selection of locations for their joint venture negotiation. To reduce co-ordination and to increase productivity of these departments, the newly elected Prime Minister Zhu Rongji focused on cutting back government staff in the first meeting of his 10-member inner Cabinet (South China Morning Post, 23rd March 1998).

As indicated in individual case study in chapter 4, “indifferent tax treatment” and “planning chaos” were two other factors identified by IBM and Otis which could have negative impact on foreign company’s negotiation within the Chinese legal system. When the Chinese government opened up its market in October 1978, the Chinese Government provided a lot of tax incentives to foreign firms to encourage their investment in the Chinese market. For example, direct foreign investment (DFI) normally enjoyed lower tax rates in the early 1980s. These preferential tax rates have been one of the most important considerations for the foreign companies to establish their joint ventures and to transfer their technologies to the Chinese economy because of their implication on company profits. However, they lost part of this preferential tax treatment when the Chinese market potential has been confirmed and the government uses it as a leverage to encourage foreign firms to negotiate joint venture projects in China. In addition, the deduction in tax incentive to foreign joint ventures provides more opportunity to local computer firms such as Legend to participate in this market. Therefore, lack of preferential tax treatment may hinder foreign firms’ negotiation for joint ventures in China. As mentioned section 2.4.1 of chapter 2, the Chinese Government still relies on a centralised organ to regulate economic development. This is especially true for some infrastructure projects. Planning chaos is likely to surface when co-ordination between local and central government is disorganised. As mentioned in chapter 4, the building industry that Otis has been operating in is at least supervised by three ministries. The MOFTEC takes care of the direct foreign investment (DFI) in this industry. The State Planning Commission is responsible for the merging of DFI with domestic planning activities and the Economic Commission is responsible for the evaluation of the impact coming from the DFI. Besides, these ministries are operating at State level, provincial level and city level. Therefore, co-ordination among these ministries is difficult and it will create chaos from a planning point of view. The quality of the city planners is another confusion because most of them were engineers and trained in the Soviet Union in the 1950s. Their planning style is production oriented and therefore they may not be able to absorb modern building concepts.
Summary

In summary, the positive factor “stable political environment” is a compelling factor (6 firms) for foreign firms to negotiate joint venture projects in China because it is unanimously agreed among all the firms under study. Other positive factors, i.e. “legal confidence”, “bureaucratic help”, “preferential tax treatment” are important but not compelling factors (less than 6 firms) in supporting foreign firms’ joint venture negotiation in China.

There are some negative factors within the Chinese legal system which ‘discourage’ foreign firms to negotiate joint venture projects in China. These factors are ‘lack of legal guidance’, ‘bureaucratic red tape’, ‘indifferent tax treatment’, and ‘planning chaos’. However, these three factors were not unanimously agreed by the six firms under study and hence the evidence associated with these three factors in figure 5.5 is not compelling.

5.2.3 Technological Impact

Figure 5.6 summarises the technological impact on all interviewed firms. Likewise, the technological influences are arranged on a meta-matrix with a site-ordered format. Each technological influence is labelled with a category-grounding phrase or code and its impact on a particular firm is dichotomised into positive and negative qualification as explained in section 5.1.3.1 (Miles and Huberman 1984). After the author of this thesis finished the categorisation with positive/negative qualification, three firms i.e. Otis, Kenwah and Synergie have strong encouragement ratings and the other three firms i.e. IBM, Bayer and Asia Link have moderate ratings. These three firms are mainly involved in the high technology industries and the competition in these industries is intense.
## Site-ordered Meta-Matrix of technological environmental impact

<table>
<thead>
<tr>
<th>Company</th>
<th>Overall Encouragement Level</th>
<th>Reasons</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>Moderate</td>
<td>Co-operation with the Ministry of Electronics (MOE) enabled IBM to have possibility to dominate MOE controlled organisations <em>(bureaucratic co-operation)</em>. Establishment of a software development centre in Shanghai to enhance technology co-operation with PRC business partners <em>(technology leadership)</em>. Establishment of an information technology centre and a China Research Laboratory to demonstrate their commitment <em>(technology leadership)</em>. Availability of computer experts <em>(technology assets)</em>. Intense competition reduced IBM's possibility to dominate the computer industry in terms of technology <em>(technology competition)</em>.</td>
<td>+</td>
</tr>
<tr>
<td>Otis</td>
<td>strong</td>
<td>Successful implementation of advance technology in their Guangzhou joint venture is a strong encouraging factor <em>(technology leadership)</em>. Has a pipeline of technologies to be introduced in the Chinese market <em>(technology leadership)</em>. Has established an image of technology leader in the Chinese market <em>(technology leadership)</em>. Is able to put more money into R &amp; D than its competitors in the technology area within an industry that is oligopolistic in nature <em>(technology leadership)</em>.</td>
<td>+</td>
</tr>
<tr>
<td>Bayer</td>
<td>Moderate</td>
<td>China urgent needs of technology transfer means that foreign joint ventures from global company like Bayer are welcomed <em>(technology leadership)</em>. MOFTEC bureaucratic procedures have negative impact on the speed of technology transfer <em>(technology bureaucracy)</em>. Competition reduces bargaining ability on joint venture based on technology transfer <em>(technology competition)</em>.</td>
<td>+</td>
</tr>
<tr>
<td>Asia Link</td>
<td>Moderate</td>
<td>Telecommunication market is at the growth stage of its life cycle and this pattern favour in technology contribution <em>(technology leadership)</em>. The future growth in the market is based on the GSM and PCS network. Asia Link, as an experienced operator of both networks in Hong Kong, will be benefited from this technological advantage <em>(technology leadership)</em>. Strong technology competition existed in this market <em>(technology competition)</em>.</td>
<td>+</td>
</tr>
<tr>
<td>Kenwah</td>
<td>strong</td>
<td>Edible oil can be processed in relatively low technology level. Low investment in technology is a definitive encouragement <em>(technology minimisation)</em>. Employees can easily be recruited and training in using technology was not required <em>(technology minimisation)</em>.</td>
<td>+</td>
</tr>
<tr>
<td>Synergie</td>
<td>Strong</td>
<td>Shenzhen government encouraged investment in Hi-Tech information industry <em>(bureaucratic co-operation)</em>. Foreign partners have definite advantage in Hi-Tech leadership <em>(technology leadership)</em>. Availability of computer experts <em>(technology asset)</em>. Limited competition in technology <em>(technology competition)</em>.</td>
<td>+</td>
</tr>
</tbody>
</table>
These positive/negative factors are clustered on figure 5.7. As indicated on figure 5.7, there are five positive and two negative factors. The five positive factors include 1) technology leadership, 2) bureaucratic co-operation, 3) technology assets, technology minimisation and 5) technology competition. The two negative factors are “technology competition” and “technology bureaucracy”.

All the firms except Kenwah within the database equipped themselves with high “technology leadership” image. According to Mr. Simon Li-director of Kenwah, their Chinese joint venture operation is very simple because oil processing only requires very low levels of technology. Therefore, they did not send any technical people to China for its operation. All firms in this study except Kenwah positioned themselves as high technology firms by doing one or more of thefollowings: 1) establishing research and development facilities, 2) continuing introducing their most advance technologies into the Chinese market, 3) helping their Chinese partners to modernise their production plants, 4) providing a technology platform to build advance products, and 5) projecting expert image. However, these technology strategies are important but not absolutely necessary for firms to enter the Chinese market. For example, Kenwah negotiated their joint venture in a low technology sector by helping their partner to expand his factory.

Other technology strategies of these foreign firms included co-operating with bureaucratic government departments to develop certain technologies; developing human assets in the technology area; and minimising investment in technology to save costs.

Whilst facing opportunities with their technological advantages, these firms also encountered some difficulties when they negotiated joint venture projects in the Chinese market. Utmost is the pressure coming from their competitors that reduce their bargaining powers to negotiate for joint ventures. Firms such as Bayer negotiated joint venture projects at speedy pace to gain earlier entry to the Chinese market than their competitors. From 1994 to 1997, they have successfully negotiated 10 joint ventures in China. In addition, lengthy bureaucratic procedures slowed down technology transfer.

**Summary**

An important strategy for foreign firms to negotiate joint ventures in China is providing “technology leadership” in the Chinese market because importing foreign technology via foreign joint ventures has been one of the major objectives of the Chinese Government. However, it is not an absolute requirement to enter this market because foreign firms can approach the Chinese market with other objectives. For example, Kenwah entered the Chinese market because of availability of marketing channel of their product and cost reduction in their operation as identified in the economic section 5.2.1. Other positive strategies include 1) co-operating with bureaucratic departments; 2) building human assets in technology; and 3) minimising investment in technology to save cost.
According to figure 5.7, there were two major factors that have negative influence on foreign firms' joint venture negotiation in China, i.e. “technology competition” and “technology bureaucracy”. The factor of “technology competition” reduced IBM, Bayer and Asia Link’s bargaining power on technology transfer in their Chinese joint ventures because their potential competitors could offer compatible technologies in these ventures. Another factor that has negative influence on foreign joint venture is the “technology bureaucracy”. For example, Bayer could not freely choose their Chinese negotiating party. Bayer must negotiate with a particular Chinese State-owned Enterprise (SOE) recommended by MOFTEC because the chemical industry is a regulated industry in the Chinese economy. Sometimes, MOFTEC recommended the same SOE to more than one foreign firm to increase the bargaining power of that SOE. This bureaucratic arrangement produced a complicated situation and created lengthy negotiation for a foreign firm that actually slowed down the rate of technology transfer.

Nevertheless, all six firms in this study unanimously agreed none of the positive or negative factors. Therefore, the author of this thesis concludes that these factors are important and can produce positive or negative influence on Chinese joint venture negotiation but none of them has definitive positive or negative influence because they enjoy no unanimous agreement among the six firms under study.
### Clustered Summary Table on Technology Encouragement Factors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Case mentioned</th>
<th>No. of cases</th>
<th>Illustrations</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive factors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology leadership</td>
<td>IBM, Otis, Bayer, Asia</td>
<td>5</td>
<td>• Establishment of research and development facilities to ensure technology contribution (IBM and Otis).</td>
</tr>
<tr>
<td></td>
<td>Link, Synergie</td>
<td></td>
<td>• Introducing pipeline of technologies (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Implementation of most advance technology at production level (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Maintaining technological leadership image in the market (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Continued needs of the Chinese market on plant modernisation with advance technologies encouraged participation (Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Providing leadership on various technology platform at the growth stage of the product life cycle (Asia Link).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Obtaining competitive advantage through expert image (Synergie).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Co-operating with Chinese Ministry to set technology platform (IBM).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Invited government department and hi-tech firms to participate (Synergie).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Human resources are important assets (IBM, Synergie).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Investment in technology and human resources were minimised (Kenwah).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Limited competition in technology generated competitive advantage (Synergie).</td>
</tr>
<tr>
<td>Bureaucratic cooperation</td>
<td>IBM, Synergie</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Technology assets</td>
<td>IBM, Synergie</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Technology minimisation</td>
<td>Kenwah</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Technology competition</td>
<td>Synergie</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td><strong>Negative factors</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technology competition</td>
<td>IBM, Bayer, Asia</td>
<td>3</td>
<td>• Intense competition reduced bargaining power within the industry (IBM, Bayer, Asia, Link).</td>
</tr>
<tr>
<td></td>
<td>Link</td>
<td></td>
<td>• Lengthy procedures slowed down technology transfer.</td>
</tr>
<tr>
<td>Technology bureaucracy</td>
<td>Bayer</td>
<td>1</td>
<td></td>
</tr>
</tbody>
</table>

### 5.3 EXTENT OF INFLUENCE

The extent of influence from foreign firms' corporate and regional head offices within the database is found in Figure 5.8 in a site ordered format. As shown, the influence from head offices of foreign firms varied across foreign firms. The only similar decision making pattern of these firms were those associated with expatriates' expenses and labour allowance. Probably the corporate head offices of these foreign firms have limited ability to influence them because the expatriates' expenses are subjected to local demand conditions and competitors' offerings whereas the labour allowance is subjected to local government regulation.
Because the author of this thesis is looking for convergent evidence across these foreign firms in their decision making pattern, these foreign firms are clustered according to their nature of operation: 1) strategic business units, i.e. IBM and Bayer; 2) regional controlled units, i.e. Otis and Asia Link; and 3) entrepreneurial firms, Kenwah and Synergie.

**Differences among groups of firms**

As shown in individual cases, IBM and Bayer were classified as Strategic Business Units (SBU) because IBM China/Hong Kong Ltd and Bayer China Ltd are both separate entities and were established mainly for the exclusive management of the Chinese market. By definition, they are a Strategic Business Unit (Kotler, 1994). Otis and Asia Link are grouped as regional controlled units. Otis' negotiation in China, was controlled from their Pacific Asia Operations (PAO) based in Singapore whereas Asia Link's negotiation was controlled by its head office in Hong Kong. Kenwah and Synergie are typically Hong Kong firms that were established as family businesses and their businesses have been evolving to include China as one of their markets. Therefore, they are classified as entrepreneurial firms.
Figure 5.9  Clustered and site-ordered extend of influence from Corporate Head Office and Regional Head Office on foreign firms

<table>
<thead>
<tr>
<th>Type of decisions</th>
<th>Strategic Business Unit</th>
<th>Regional Controlled</th>
<th>Entrepreneurial</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IBM</td>
<td>Bayer</td>
<td>Otis</td>
</tr>
<tr>
<td>Investment amount</td>
<td>weak/strong</td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td>weak</td>
<td>weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Life span of the contract</td>
<td>weak</td>
<td>weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Plant specifications</td>
<td>weak</td>
<td>weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Board representation</td>
<td>weak</td>
<td>weak</td>
<td>Strong</td>
</tr>
<tr>
<td>Expatriates' expenses</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Labour allowances</td>
<td>no</td>
<td>no</td>
<td>no</td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
</tr>
<tr>
<td>Transfer of logo</td>
<td>Strong</td>
<td>N/A</td>
<td>Strong</td>
</tr>
<tr>
<td>Transfer of intellectual Property Right and licensing</td>
<td>Strong</td>
<td>Strong</td>
<td>Strong</td>
</tr>
</tbody>
</table>

Note: N/A means not applicable. The above business operation dimension may not be applicable to some companies. For example, Bayer involves in the manufacturing of industrial products which means their products will eventually become part of the final products of their customers. Therefore, transfer of company logo is applicable to IBM's products not Bayer's products.

Figure 5.9 is a clustered and site ordered table showing the extent of influence from corporate head office and regional head offices to the foreign firms within the above three categories. As shown, the influence pattern from the corporate head offices within each category is very similar whenever that decision is applicable. For example, the influence patterns of IBM and Bayer's corporate head offices are also exactly the same except for the investment amount. As mentioned in the IBM case, IBM corporate office's involvement in the decision of investment amount was limited to the formal approval from the board of directors in the U.S. except when it was over 50% of the pre-approved investment amount. In other words, the influence from their corporate head office was weak whenever the investment amount was within 150% of the pre-approved limit. However, the influence from their corporate head office was strong whenever it was over that limit. In the case of Bayer, the influence level was very strong. Its corporate head office has been keeping a very close watch on the investment amount because its Chinese joint venture involved huge investment. For example, Bayer
has invested at least US$ 250m in the Chinese joint venture projects in a 3-year period ending 1997 according to figure 4.19 on chapter 4.

The difference between IBM and Bayer on this dimension can be explained by the extent of their investments in the Chinese market. IBM established their first co-operative joint venture Tianjin Advance Information Products Corporation Ltd (TAIPC) with Tianjin Zhonghuan Computer Group in 1990 on a 5-year contract term that has been extended at the time of interviewing with the author on this study. Likewise, their second co-operative joint venture that was originally set as a 5-year contract in 1991 with Shenzhen University has also been extended. The profit performance of these joint ventures, according to Mr. Luis Rodriguez-director of manufacturing has been satisfactory. The evidence showed that IBM’s joint venture experience has been pleasant. Therefore, the level of autonomous status given by the corporate head office to IBM is understandable.

On the contrary, Bayer’s corporate head office in Germany needed to exercise bureaucratic control on their total investment in the Chinese market. As mentioned in section 4.3.2 in chapter 4, Bayer has established 10 joint ventures in China in a three-year period ending 1997. These joint ventures are not expected to generate profit in about 4 to 8 years from their year of their establishments. With an average investment amount of US$ 25 million, these existing joint venture projects, together with future ventures, are expected to put pressure on Bayer’s profit performance and cash flow situation at corporate level in short to medium term. Therefore, Bayer’s corporate office needs to exert strict control on investment amounts.

The influence patterns from the corporate offices to the second group of foreign firms ‘regional controlled unit can also be found on figure 5.9. Concerning Otis, control on all dimensions from their regional head office is strong except the expatriates’ expenses and labour allowance which are determined by the local employment situations in the Chinese market and the Chinese government’s regulation respectively as mentioned before. Concerning the other regional controlled firm Asia Link, the operation dimensions of plant specification, transfer of logo and transfer of intellectual property right and licensing were not applicable because their joint venture in Shenzhen only supplies capitals and technology to the China Unicom there. This arrangement typically does not involve these three dimensions.

Differences are found in the third group of firms ‘the entrepreneurial firms’. Kenwah’s head office in Hong Kong exercised a moderate level of control on investment amount because the capital outlay may affect the cash flow conditions of their investment in other joint venture projects in China. According to the information provided by Kenwah’s director Mr. Li, Kenwah has three other joint venture projects in Sichuan, Jiangxi, and Heilong Jiang of China. Weak influences were exerted on four dimensions i.e. dividend arrangement, life span of the contract, plant specification and board representation. Obviously, Mr. Li, who is the director of Kenwah, is constrained by other family
members within his company and therefore he cannot make absolute autonomous decisions. Unlike Mr. Li, Mr. So of Synergie did not have constraint in making decisions because he is the head of his family. The only influence coming from the head office was the cash flow condition that affected the investment amount. The two companies within the ‘entrepreneurial’ group do show similarity i.e. they did not actually use any generic differentiated strategy (Porter 1980) themselves which is normally involved in technology transfer, transfer of company logo and transfer of intellectual property right and licensing. Readers of this thesis may argue that Synergie is involved in the hi-tech area. However, Synergie’s role in their joint venture was mainly involved in the ‘marketing’ of hi-tech products rather than transferring their high technology to the Chinese market. Their motive of participating in the Chinese market was looking for business and profit opportunities. In this respect, Synergie’s motive was identical to that of Kenwah.

Similarities across all groups of firms

According to figure 5.9, the most obvious similarities across the three clustering groups of firms are found in the areas of “expatriate expense” and “labour allowance”. All firms (5 firms) except Kenwah did not exert influence on “expatriate expense” because Kenwah did not send any expatriate to China. All six firms did not exert influence on “Labour allowance”. The less obvious similarities across the clustering groups of firms are found in the areas of “degree of technology transfer”, “transfer of company logo” and “transfer of intellectual property right and licensing”. Whenever they were applicable, firms would exert strong influence on these three dimensions.

“Expatriate expense” and “Labour allowance”

“Expatriate expense” is dependent upon market rate, competitors’ offerings and local conditions such as living standard. Corporate and regional head offices of the firms under study probably have limited ability to influence decision in this area because of lack of understanding in the local market situations. Concerning the item “labour allowance”, the corporate and regional head offices of the firms under study actually did not have the ability to influence them because the labour allowance is regulated by the Chinese Government as mentioned in individual cases in chapter 4.

“Degree of technology transfer”, “transfer of company logo” and “transfer of intellectual property right and licensing”

Similarities are found in the areas of “degree of technology transfer”, “transfer of company logo”, and transfer of intellectual property right and licensing”.

As mentioned in chapter 4 and indicated in figure 5.9, only 4 firms i.e. IBM, Bayer, Otis and Asia Link are involved in “technology transfer” in their Chinese joint venture projects. Kenwah’s joint
venture was only involved in oil processing which is very low in applying high-tech, and Synergie was responsible for the marketing function in its Chinese joint venture and therefore "technology transfer" was not an issue at all in their Chinese joint ventures negotiation. However, the issue of "technology transfer" was important to the remaining firms i.e. IBM, Otis, Bayer and Asia Link because "technology transfer" was one of the Unique Selling Propositions (USP) to produce a Win/Win situation with their Chinese partners as mentioned in section 2.3.3.1.2 in chapter 2. As mentioned in section 2.4.1.4 in chapter 2, the transferability of technology is dependent upon the availability of two components: 1) non-tacit knowledge - the hardware of technology such as designs, specifications, and drawings, 2) tacit knowledge - the software of technology such as managerial skills of that technology to manage the technology. Foreign companies must ensure these two components are properly managed.

Lan (1996) conducted a survey of "transfer in technology of joint ventures" in a major industrial city in China. This survey indicated that:

- Hardware transplant dominated the technology transfer process. The Sino-foreign joint ventures had been very much depending upon import of products and equipment from the foreign partners;
- Most Sino-foreign joint ventures lack the management skills for modern technologies and are mainly involved in operation and maintenance of imported technologies without developing their own R&D; and
- Localisation of personnel in Sino-foreign joint ventures resulting in low involvement of the foreign investors in management blocks the contacts between foreign expertise and local personnel.

In short, this survey indicated the "technology transfer" mainly becomes a process of importing products and equipment (non-tacit knowledge) without creating a technology cultures such as R&D in these Sino-foreign joint ventures. The continued reliance on imported technology implies that these joint ventures are still at a manufacturing mode rather than at an innovative mode of developing new products and technologies. The lack of management skills and localisation of personnel in these joint ventures also put the Sino-foreign joint ventures in a status quo- continuing their manufacturing activities without further improvement in technology development which is an important objective of international joint venture (Keegan 1995, Porter and Fuller 1986).

Lan's findings are consistent with those of Aiello (1991) when Aiello studied the technology transfer situation in Beijing Jeep Corporation. Aiello (1991) concluded that Beijing Jeep is basically a Chinese State-owned Enterprise (SOE) with foreign senior management and imported technology. Therefore, the conclusions of Lan's (1996) and Aiello (1991) show that the "transfer of technology"
in China has not been successful in general and “transfer of technology” merely becomes a “tool” or a “means” to import foreign products and equipment.

According to Lan’s (1996) and Aiello’s (1991) findings, corporate and regional offices of companies in this study i.e. IBM’s, Otis’, Bayer’s and Asia Link’s exerting strong influence on the issue of “degree of technology transfer” in their joint venture negotiation is discernible. These firms did not want the “technology transfer” to become an exercise of exporting products and equipment to China, rather, they actually want to use “technology transfer” as a “tool” or “means” to generate future technological development in the Chinese market.

Concerning the issue of “transfer of company logo” to the Chinese market, international companies such as IBM, and Otis needed to take extreme care because a company logo is considered as a company’s intangible asset. An intangible asset is defined as “a price that someone is willing to pay on top of a company’s net asset value if that someone wants to buy up that company” (Davidson et al 1979, p.312). The intangible assets such as company logo and management expertise reflect stakeholders’ confidence in a company. As such, corporate and regional head offices of IBM and Otis exerting strong influence on the issue of company logo are understandable because an improper management on company logo will eventually damage stakeholders’ confidence in their companies and their products. For example, when Nestle took over Rowntree in 1988, the imprint of Nestle’s logo on Rowntree’s products became part of the global integrated policy (Nestle internal document 1989).

Concerning the issue of “transfer of intellectual property right and licensing”, international firms such as IBM, Otis and Bayer needed to pay special attention because China, together with India and Argentina, were listed by the U.S. Government as the worst violators of intellectual right and licensing (Chan 1994). Apparently, piracy of copyright and licensing is a main issue before an international firm penetrated a foreign market. Mr. Loudon Owen, managing partner of Toronto-based McLean Watson Capitals agrees: “piracy is the most important issue for software companies” (Chan 1998, p.10). For example, on the August 31 1998, the American Software Publishers Association went to the US Sentencing Commission asking for enforcement of penalties against software thieves which is a typical of how companies protect their intellectual property right and licenses (Slight-Foir 1998). As mentioned in the IBM case in chapter 4, IBM and other software manufacturers in China protested to the Chinese Government for the protection of intellectual property right and licensing in the Chinese market. Therefore, the corporate and regional head offices of IBM, Otis, and Bayer exerting strong influence in this issue in the joint venture negotiation exercises is understandable.
Summary

As mentioned above, the three groups of firms received influences from their head offices in very similar patterns on four variables, i.e. “dividend arrangement”, “life span of the contract”, “plant specifications”, and “board representation”. The ‘entrepreneurial’ group received weak to nil influence; the ‘regional’ group experienced strong influence from their corporate offices and the ‘strategic business unit’ (SBU) degree of influence fell between the two groups. In this respect, a regional controlled company is at a disadvantage when they compete for a joint venture project in China with a SBU of a global firm because this regional firm has limited flexibility in negotiating that project. Global companies seem to understand this limitation. For example, Otis established its holding company in China to specifically manage the Chinese market.

The three groups of firms did not exert influence on the variables of “expatriate benefits” and “labor allowance” because the former is determined by local conditions and the latter is regulated by the Chinese Government.

International firms, whenever possible, emphasise the issues of “degree of technology transfer”, “transfer of company logo” and “transfer of intellectual property right and licensing” in negotiating joint ventures with other companies. In this study the corporate and regional head offices of IBM, Bayer, Otis, and Asian Pacific exerted strong influence on these issues. The reasons were:

- If the issue of “transfer of technology” was not managed well, “technology transfer” may become an exercise of exporting products and equipment to China. However, these firms actually wanted to use “technology transfer” as a “tool” or a “means” to generate future technological development in the Chinese market;
- If the issue of “transfer of company logo” was not handled properly, stakeholders’ confidence in their companies and their products would eventually be damaged;
- China is one of the worse violators of intellectual right and licensing. Therefore, if the “transfer of intellectual property right and licensing” was not managed correctly, the corporate investment in this area would be impaired.

This section discussed the level of influence that foreign corporate head offices exerting on their negotiators in negotiating joint ventures in China. Next section is to discuss the Sino-foreign negotiation process and strategies.
5.4 NEGOTIATION PROCESS AND STRATEGIES

The extent of influence from the corporate and regional head offices of foreign firms to their joint venture negotiation decision was discussed in the last section. This section is used to discuss the compliance of their joint venture negotiation process to the ideal negotiation process rather than to discuss the validity of this process because the author of this thesis has already confirmed validity in chapter 3 figure 3.6. As such, the author of this thesis attempts to compare the compliance of these firms' strategies and actions at each negotiation stage to the ideal strategies at corresponding stage which the author proposed in figure 3.6. These actual strategies and actions employed by foreign firms at individual stages are presented on a clustered and site-ordered negotiation process and strategies descriptive meta-matrix figure 5.10.

5.4.1 Pre-negotiation stage

The degree of matching or compliance of all foreign firms' strategies and actions within the database to the ideal at the pre-negotiation stage is strong except for Kenwah who show moderate matching. The reason was that Mr. Li, director of Kenwah, had a very good guanxi with their Chinese partner who was also a private owner of his factory. Their negotiation on the joint venture project was on a one-to-one basis and both of them were key decision-makers of their companies that made identification of bureaucratic structure unnecessary. Kenwah's pre-deposition of old friend status in their relationship with their PRC partner before the formal of their joint venture negotiation implied that both parties did not have to go through the relationship building process. Negotiation becomes easy between old friends as the author of this thesis mentioned in chapter 2.5.3.
Figure 5.10  Clusters and site-ordered negotiation process and strategies descriptive matrix

<table>
<thead>
<tr>
<th>Stage of negotiation (Ideal)</th>
<th>Strategic Business Unit</th>
<th>Regional Controlled</th>
<th>Entrepreneurial</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IBM  Bayer  Otis  Asia Link  Kenwah  Synergie</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pre-negotiation stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Organisation Objectives</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification of PRC bureaucratic structure</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>no  Yes</td>
</tr>
<tr>
<td>Identification of common marketing and financial goals</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td><strong>Personal Objective</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identification of PRC negotiators' goals</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td><strong>Etiquette</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eating and drinking</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td><strong>Degree of Matching</strong></td>
<td>strong  strong  strong  strong</td>
<td>moderate  Strong</td>
<td></td>
</tr>
<tr>
<td>Negotiation stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Collaborating</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>Compromising</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>Perceptions on PRC negotiators' strategies and respond</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>no  Yes</td>
</tr>
<tr>
<td>Patience</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>USP</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>Clarifying important issues</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td><strong>Degree of Matching</strong></td>
<td>strong  strong  strong  strong</td>
<td>moderate  Strong</td>
<td></td>
</tr>
<tr>
<td>Post negotiation stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closely monitor Chinese economic development</td>
<td>no  no</td>
<td>no  yes</td>
<td>no  No</td>
</tr>
<tr>
<td>Closely follow own company's policies when changing terms</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>Patience</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td><strong>Degree of Matching</strong></td>
<td>moderate  moderate  moderate  strong</td>
<td>moderate  Moderate</td>
<td></td>
</tr>
<tr>
<td>Contract signing stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closely follow own company's objectives</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>Closely monitor Chinese economic &amp; political environment</td>
<td>no  no</td>
<td>no  no</td>
<td>no  No</td>
</tr>
<tr>
<td>Thoroughly check contract terms against company policies</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>Patience</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td><strong>Degree of Matching</strong></td>
<td>moderate  moderate  moderate  strong</td>
<td>moderate  Moderate</td>
<td></td>
</tr>
<tr>
<td>Post contract signing stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Strategies</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Closely monitor PRC economic development and reflect on the contract</td>
<td>no  no</td>
<td>no  no</td>
<td>no  No</td>
</tr>
<tr>
<td>High level negotiation</td>
<td>no  no</td>
<td>no  no</td>
<td>no  No</td>
</tr>
<tr>
<td>Patience</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>Communicate with PRC government department to obtain implementation license</td>
<td>yes  yes</td>
<td>yes  yes</td>
<td>yes  Yes</td>
</tr>
<tr>
<td>Closely follow own company's objective</td>
<td>no  no</td>
<td>no  no</td>
<td>no  Yes</td>
</tr>
<tr>
<td><strong>Degree of Matching</strong></td>
<td>weak  weak  weak  weak</td>
<td>weak  Weak</td>
<td></td>
</tr>
</tbody>
</table>

All other foreign firms within the database are in a different situation from Kenwah in three aspects:

1) they were negotiating with State-Owned enterprises whereas Kenwah was dealing with a private company;
2) they were negotiating with a group of person rather than on a one-to-one basis; and 3) all their Chinese parties had complicated reporting structures. In other words, they had to deal with complex hierarchy and nepotism, cliques and patronage systems (Redding and Tam, unpublished paper) that exist among these PRC firms as the author of this thesis mentioned in chapter 2.4.4.2.1 of
this thesis. For example, Synergie had three Chinese and two foreign partners and most of IBM's and Bayer's Chinese partners had to report to their parent companies. Likewise, Asia Link's Chinese party, China Merchant Group had to report to their parent organisation, the Ministry of Transport. These aspects inaugurated the foreign firms to cautiously monitor the bureaucratic structures of their PRC parties to achieve harmonisation with their joint venture partners. Besides the identification of the PRC bureaucratic structure element, all the other elements were identical to all foreign firms.

In summary, whenever foreign firms are negotiating joint venture projects with State-Owned Enterprises, the strategies and actions they take are identical. Whenever foreign firms are bargaining with private firms, the identification of PRC bureaucratic structure may be elapsed because of the simpler reporting structure within private Chinese firms. All the other strategies and actions i.e. 1) identification of common marketing and financial goals, 2) identification of PRC negotiators' goals and 3) the adoption of Chinese etiquette via eating and drinking are necessary at the pre-negotiation stage.

5.4.2 Negotiation stage

The degree of matching with or compliance to the ideal on all firms within the database is strong except for Kenwah who has a moderate match. As mentioned previously, Kenwah's Chinese partner was an old friend of their director Mr. Li. This pre-deposited relationship helps them to have a wholehearted and open negotiation. Each party knew the other party's complete requirements in a harmonious environment right from the beginning. The complete information setting did not call for perceptions on other party's strategies by either side.

There is one strategy which was not mentioned in figure 3.6, i.e. 'clarifying important issues' which was consistently mentioned by all informants of all foreign firms. As mentioned in chapter 3 section 3.7.2, officials within Chinese organisations have to consult each other and reach a group consensus before taking any significant steps (Lee and Lo, 1988). Moran and Stripp (1991) call this mode of decision making pattern an 'internal decision making system.' In saying that, the Chinese parties attempt to give indirect answers to the foreign parties' questions before they obtain consensus. Therefore, the foreign negotiators need to clarify the issues they have in mind by other means. For example, Mr. Luis Rodruequez of IBM mentioned that his staff would use a lot of probing techniques to obtain information from their Chinese partners. Ms. Celine Chew of Bayer said that they would use some examples to show to their Chinese partners the consequences and implications of some important issues. Mr. Simon Li of Kenwah used a more direct approach. As he said: "we just sit down and talk!" Mr. Daniel So of Synergie would talk to their Chinese partner in private sessions to clarify their intention. All this evidence shows that all foreign partners intended to ensure the level of commitments of their Chinese partners that were important to their planning in the Chinese market. As mentioned in chapter 2 section 2.6, the Chinese Government will take appropriate action to bring
the economy back on course if it considers the economy needs adjustment. The implementation of the macro economic control on 24 June 1993 was an obvious example. The macro economic policy makes it difficult for the Chinese parties to commit themselves. However, if the foreign parties convince their Chinese parties of the potential of the joint ventures, they probably can find ways to get around their economic system. As the Chinese also say: "the country has their policy and the officials have the counter-policy!"

In summary, the strategies and actions taken by foreign firms at the negotiation stage have a good fit with the ideal proposed. The only exception was found in the case of Kenwah. Mr. Li did not have to perceive his Chinese partner's strategies because they were old friends and knew each other's requirements at the start of the negotiation. There was one strategy, 'clarifying important issues', which was consistently mentioned by the informants of the foreign firms. This was because they had to be clear about the commitment of their Chinese parties.

5.4.3 The post negotiation stage

The strategies and action taken by all foreign firms only had a weak match with the ideal at this stage except Asia Link that had a strong match. In saying that, all the foreign firms did not closely monitor the Chinese economic development except Asia Link. As mentioned in chapter 3 section 3.7.4, the Chinese party would request a change to the contract, after it had been signed to reflect the Chinese economic situation at that time. In this sense, it was logical for all the foreign firms to "play deaf" to their foreign parties' request by neglecting the development in the Chinese market because they thought that their Chinese parties should sort out their own economic problems. Wilhelm, Jr. (1994) recognises the strategy of playing deaf was frequently used when the Chinese negotiated with the Americans in Mao's era. However, Asia Link could not play deaf to their investment in China because the Chinese telecommunication market is a highly regulated market, as mentioned in the case, a market that is subjected to change by the Chinese Government. The regulatory environment was relatively more turbulent than that of other foreign firms within the database. As such, Asia Link had to take a more active role by monitoring the economic and regulatory environment and the amended their negotiation accordingly.

In summary, the strategies and actions taken by the foreign firms are moderately matched with the ideal except Asia Link because they had to take a more active role in adjusting their own strategies in the Chinese market.
5.4.4 Contract signing stage

At the contract signing stage, all foreign firms within the database had unanimously agreed on not closely monitoring the Chinese economic and political environment. As a result, all firms obtained a moderate match. This unanimous agreement reflected their attitudes that they wanted to finalise the contracts without further changing the terms on those contracts because potential change may affect the establishment of the joint ventures.

The strategies and actions firms took at this stage were 1) closely followed their firms' company policies; 2) thoroughly checked contract terms against their firms' company policies and 3) they remained patient at this stage.

5.4.5 Post contract-signing stage

There is only a weak match for all firms on their actual strategies and actions with the ideal at this stage. Surprisingly, all firms did not 1) closely monitor PRC economic development and reflect on the contract and 2) pursue higher level negotiation. The negligence of the former was consistent with what foreign firms did at the contract signing stage because they would like to implement the joint venture projects as soon as possible. In saying that, they actively communicated with all government departments concerned to obtain necessary licenses to establish their joint ventures. Two firms Kenwah and Synergie, however, did not get involved in any communication with the relevant government departments concerned because the work was the sole responsibility of their Chinese joint venture partners. Kenwah’s joint venture partner finished all the approval process within 80 days and one of Synergie's Chinese partners, the Shenzhen City Government carried out part of the procedures themselves.

All the foreign parties did not pursue higher level negotiation. Their actions were consistent with the face concept that the author mentioned in chapter 2 section 2.5.4. The foreign negotiators paid extra attention not to cause people ‘to lose face’. By going to higher level negotiation implies denouncing one's status and reputation. It also indicates a lack of trust and confidence (Brunner and Wang 1988).

All foreign negotiators agreed that the Chinese negotiators did not attempt to amend the terms on their contracts once they have been signed except in the case of Synergie. Because their contracts have not been altered, they did not need to follow their companies' objective regarding changing the contract terms. In other words, their Chinese partners actually adhered to what had been agreed upon and carried out their commitments accordingly.
Synergie, on the contrary, claimed that their business operating conditions changed daily and therefore they had to make compromise on a daily basis. Mr. So of Synergie noted: "we solve business problems on a daily basis. Everything changed once the contract has been signed... we might never see it again once we have signed it!" Another factor that added confusion to their operating condition was that they had too many partners. Including Synergie, there were three foreign and three Chinese parties that presented a lot of co-ordination problems in their daily operating. Under these operating environments, Mr. So had to follow his own company's objectives to judge whether the change in operating condition was reasonable. In saying that, the change may not be recorded on the contract.

In summary, there is a weak match on all foreign firms' strategies and actions to the ideal at the post contract signing stage. All the foreign firms did not closely monitor the PRC economic development and reflect these developments on the contract in order not to defer the implementation of the contracts. They also did not go for higher level of negotiation so as to avoid the Chinese "losing face". Four foreign firms i.e. IBM, Otis, Bayer and Asia Link communicated actively with the PRC government departments and attempted to give their joint venture projects earlier implementation dates. Two other firms i.e. Kenwah and Synergie, however, rendered the communication task to their Chinese parties. Synergie also had to follow their company policies closely when their Chinese parties requested changes on the operating conditions.

5.5 JOINT VENTURE NEGOTIATION PILLAR

The last section discussed the foreign firms' joint venture negotiation process. This section is to discuss the joint venture negotiation pillar. As mentioned in section 2.5.4 of chapter 2, the joint venture negotiation pillar consists of two components: 1) the Chinese relationship cultural elements, 2) the problem Solving Attitude (PSA). This section is to discuss this joint venture negotiation pillar.

5.5.1 Chinese relationship culture

Figure 5.11 is a clustered and site order summary table on all the cultural influence associated with all the foreign firms within the database.

The strong influence rating on the guanxi and face elements is consistent with the literature that the author of this thesis reviewed in chapter 2 sections 2.53 and 2.54. The findings have been repeatedly confirmed (Brunner and Taoka 1977; Pye 1982; Brunner and Koh 1988; Brunner et al 1989; Blackman 1997; Hu 1944; Hwang 1987; Brunner and Wang 1988). The norm of reciprocity is confirmed by Brunner and Wang (1988). According to the information collected from the informants
and other sources in this study, this element has a strong influence on foreign firms' joint venture negotiation in China. Trust was uncovered by the informants during the in-depth interview process. Roland William, Chairman and CEO of Shell Australia (Blackman 1997, preface) concurred: "The challenge in striking mutually beneficial deals in China is virtually always profound. A knowledge of the nation's history and culture is essential, as is a business relationship based on trust, esteem, loyalty and commitment."

All the above four cultural elements had strong influence, acting upon the joint venture negotiation process between the foreign firms and their Chinese counterparts. The rating given to these cultural elements is consistent with the literature to date. However, the renqing element exerted weak to strong influence on these firms' negotiation which is not as predicted by the model. Specifically, it had weak to moderate influences on the Strategic Business Unit (SBU) and regional Controlled groups and strong influence on the entrepreneurial group i.e. Kenwah and Synergie.

Renqing, as the author of this thesis mentioned in chapter 2 section 2.5.5, is referred to a resource that an individual present to another person as a gift in the course of social exchange which is expected to be repaid by that person at a later stage. This kind of social behaviour of "doing favour" is as a part of the Chinese daily life but it's essence is relatively remote from the Western businessman's concept on friendship which is generally more arms-length and based on feelings (Blackman 1997). As Blackman (1997, p.15) describes it: "...genuine friendship in China can only be proved by action. For example, if a Chinese official comes to buy wool, the way to establish yourself as his business friend is to present him with a superb, high-quality suit made from the wool you wish to sell him. Every time he wears the suit he will think favourably of you, his business friend. What is bribery in western thinking is a sign of dependable friendship to the Chinese... In fact, Chinese friendship can be very burdensome. It involves give and take, favours for favours, and always giving precedence to the personal over the objective and institutional. The Chinese often accuse westerners for having no renqingwei or 'human feeling' when they refuse to bend the rules to help. It is possible to use the notion to influence Chinese partners to act on foreign businessmen's interest. For example, it can be used to lobby associates to speed up approvals, or to strike a more favourable land-use fee." In other words, the practice of renqing is seen as an insider's action at a very personal level and always involves a bending of rules to help.
As indicated in the analyses on figure 5.11, the renqing element had strongly influenced the entrepreneurial group i.e. Kenwah and Synergie throughout the negotiation process. Their Chinese partners helped them do all the application procedures based on renqing.

In summary, four cultural elements i.e. guanxi, face, reciprocity and trust have strong influence acting upon the whole joint venture negotiation process. One cultural element renqing, however, had only weak to strong influence acting upon the whole joint venture negotiation process depending upon the type of firms in the database.

The evidence of all cultural elements is put on a clustered and cultural evidence ordered meta-matrix figure 5.12. There were four cultural elements which had strong influence on foreign firms’ joint venture negotiation process in China i.e. guanxi, face, reciprocity and trust. However, their format of influences was different across these four cultural elements.

As shown, the foreign firms had more predicted modes of establishing guanxi with their Chinese partners. This evidence was compiled and all foreign firms agreed that 1) cultivating excellent guanxi with partners and customers was important; 2) initiating inter-company visits were vital; and 3) guanxi should be on a long term relationship basis. All foreign firms also recognised that 1) gift giving could enhance face (mianzi) and 2) confrontation with their Chinese counterparts was damaging in face maintenance. These firms, however, could not obtain unified agreement on other evidence as listed.

On the other two cultural elements which had strong influence i.e. reciprocity and trust, the evidence is distributed over a wider spectrum of results. More converging opinions included 1) the Chinese counterparts reciprocated by doing all the procedural works (4 firms) and 2) foreign firms’ long terms association with various ministries established trust between them (3 firms).
Firms had divergent opinions on the remaining cultural element renqing that has weak to strong influences on these firms' joint venture negotiation process. As mentioned, the entrepreneurial group of firm experienced strong influence whether the other two groups of firms found weak to moderate influence in this element. To understand the reason of this divergence, readers must first understand the rules of practising renqing which had been presented in chapter 2 section 2.5.5 which are repeated here: 1) the cost of paying out the resources; 2) the affective component (qanqing) between them; 3) the probability of reciprocation from the petitioner and 4) social evaluations from other people in the same social network. Special attentions should be paid to the first two rules i.e. a firm practising renqing must pay a ‘cost’ based on affection rather than business logic. Although the Chinese counterpart is expected to repay this ‘cost’ at a later date, the concept can be hardly accepted by firms with modern management systems in place. In addition, all firms within the strategic Business Unit (SBU) and the regional controlled group are publicly listed companies that have relatively more

Figure 5.12  Clustered cultural element evidence ordered Meta-matrix

<table>
<thead>
<tr>
<th>Cultural elements</th>
<th>Case mentioned</th>
<th>No of case</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Guarxi</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Cultivating excellent <em>guarxi</em> with partners, and customers.</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
</tr>
<tr>
<td>- Initiating inter-company visits.</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
</tr>
<tr>
<td>- Emphasising long term relationship.</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
</tr>
<tr>
<td>- Establishing good <em>guarxi</em> with government ministries, local governments, and State commissioners.</td>
<td>IBM, Otis, Bayer, Asia Link, Synergie</td>
<td>5</td>
</tr>
<tr>
<td>- Cutting through bureaucratic red tape.</td>
<td>Kenwah, Synergie</td>
<td>2</td>
</tr>
<tr>
<td><strong>Face</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Presented gifts to enhance face</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
</tr>
<tr>
<td>- Would not confront the other party in open meetings in order to maintain face of both parties.</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
</tr>
<tr>
<td>- Would not pressurise the Chinese government in any open forum.</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>4</td>
</tr>
<tr>
<td>- Conceived that giving face to the Chinese parties is a cultural respect.</td>
<td>Otis</td>
<td>1</td>
</tr>
<tr>
<td>- The Chinese joint venture operator has a lot of face in the local community.</td>
<td>Kenwah</td>
<td>1</td>
</tr>
<tr>
<td>- The Chinese approval authorities gave face to the joint venture partners and carried out approval work at the joint venture site.</td>
<td>Kenwah</td>
<td>1</td>
</tr>
<tr>
<td><strong>Reciprocity</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Doing all the procedural works by the Chinese party.</td>
<td>Bayer, Asia Link, Kenwah, Synergie, IBM, Otis</td>
<td>4</td>
</tr>
<tr>
<td>- Establishing training centres to train local Chinese personnel as an act of reciprocity.</td>
<td>IBM, Otis</td>
<td>2</td>
</tr>
<tr>
<td>- Procuring production materials in the domestic market as an act of reciprocity.</td>
<td>IBM, Otis</td>
<td>2</td>
</tr>
<tr>
<td>- Training qualification has being recognised by the Chinese Government as an act of reciprocity.</td>
<td>Otis</td>
<td>1</td>
</tr>
</tbody>
</table>
### Chapter 5 - Cross Case Analysis

#### Renqing
- Giving pocket money to the Chinese negotiation members as entertainment fee while they had their business inspection tour in Hong Kong.
- Presenting gifts and donating products to unrelated business parties.
- Sponsoring Chinese negotiation members to overseas for study.
- Lending money to the Chinese party without any collateral.
- Working extremely hard by the Chinese party to repay the renqing that the foreign party extended to them.
- Bringing both the foreign party and the Chinese party together by some members within the guanxi network.
- Arranging visiting visa for the Chinese party by the foreign party.

<table>
<thead>
<tr>
<th>Renqing</th>
<th>Company(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Giving pocket money to the Chinese negotiation members as entertainment fee while they had their business inspection tour in Hong Kong.</td>
<td>Asia Link, Synergie</td>
</tr>
<tr>
<td>Presenting gifts and donating products to unrelated business parties.</td>
<td>IBM, Otis</td>
</tr>
<tr>
<td>Sponsoring Chinese negotiation members to overseas for study.</td>
<td>Bayer, Synergie</td>
</tr>
<tr>
<td>Lending money to the Chinese party without any collateral.</td>
<td>Kenwah</td>
</tr>
<tr>
<td>Working extremely hard by the Chinese party to repay the renqing that the foreign party extended to them.</td>
<td>Kenwah</td>
</tr>
<tr>
<td>Bringing both the foreign party and the Chinese party together by some members within the guanxi network.</td>
<td>Synergie</td>
</tr>
<tr>
<td>Arranging visiting visa for the Chinese party by the foreign party.</td>
<td>Synergie</td>
</tr>
</tbody>
</table>

#### Trust
- Establishing more than one joint venture with various ministries and State Commissions indicated that trust existed between the foreign and Chinese parties.
- Numerous interactions between the foreign and the Chinese parties meaning the establishment of mutual understanding and trust.
- Discussing the possibility of changing terms on the contract after it had been signed indicated both parties trusted that the change were mandatory and beneficial to the co-operation.
- Renewing joint venture contract by both foreign and Chinese parties.
- Building up tight co-operation by the two parties.
- Supporting the Chinese market with reputable goods and services established customers' trust on the foreign party.
- Rendering support from various ministries to the foreign parties indicated the existence of trust.
- Trusting the Chinese party and loaned money to them.
- All procedural works related to the joint venture were carried out by the Chinese party indicated the existence of trust between both parties.
- Carrying out all the joint venture operation by the Chinese party indicated the level of trust that the foreign party had on the Chinese party.

<table>
<thead>
<tr>
<th>Trust</th>
<th>Company(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establishing more than one joint venture with various ministries and State Commissions indicated that trust existed between the foreign and Chinese parties.</td>
<td>IBM, Otis, Bayer</td>
</tr>
<tr>
<td>Numerous interactions between the foreign and the Chinese parties meaning the establishment of mutual understanding and trust.</td>
<td>Bayer, Synergie</td>
</tr>
<tr>
<td>Discussing the possibility of changing terms on the contract after it had been signed indicated both parties trusted that the change were mandatory and beneficial to the co-operation.</td>
<td>Bayer, Synergie</td>
</tr>
<tr>
<td>Renewing joint venture contract by both foreign and Chinese parties.</td>
<td>IBM</td>
</tr>
<tr>
<td>Building up tight co-operation by the two parties.</td>
<td>Otis</td>
</tr>
<tr>
<td>Supporting the Chinese market with reputable goods and services established customers' trust on the foreign party.</td>
<td>Otis</td>
</tr>
<tr>
<td>Rendering support from various ministries to the foreign parties indicated the existence of trust.</td>
<td>Bayer</td>
</tr>
<tr>
<td>Trusting the Chinese party and loaned money to them.</td>
<td>Kenwah</td>
</tr>
<tr>
<td>All procedural works related to the joint venture were carried out by the Chinese party indicated the existence of trust between both parties.</td>
<td>Kenwah</td>
</tr>
<tr>
<td>Carrying out all the joint venture operation by the Chinese party indicated the level of trust that the foreign party had on the Chinese party.</td>
<td>Kenwah</td>
</tr>
</tbody>
</table>

Rigorous reporting procedures than the entrepreneurial firms because their business operations must be justified from the stakeholders’ point of view (Kotler 1994). In this sense, some actions taken by the entrepreneurial firms such as lending money to the Chinese partner without any collateral and giving pocket or entertainment money to the Chinese negotiators while they were visiting Hong Kong are incomprehensible to the foreign firm. The only exception was Asia Link that is headed by Mr. Liem.
Sioe Liong, an Indonesian Chinese. In saying that Asia Link’s action of giving pocket money or entertainment money to their Chinese counterparts were more comprehensible from the top management viewpoint. Therefore, these limitations restricted foreign firms especially the SBU and regional controlled groups within the database to practice renqing.

In summary, four cultural elements i.e. guanxi, face, reciprocity and trust have strong influences on foreign firms’ joint venture negotiation process in China. In general, foreign firms employed different strategies to cultivate these cultural relationships. It is difficult to condense these diverse strategies into fewer generic strategies especially the reciprocity and the trust elements. Some generic strategies, however, can be found in the guanxi and face elements. Concerning guanxi establishment between foreign firms and their Chinese counterparts, the strategies include: 1) cultivating excellent guanxi with partners and customers; 2) initiating inter-company visits; and 3) emphasising a long term relationship basis were common. In relation to face, 1) enhancing face by gift giving (miànzì) and 2) avoiding direct confrontation with their Chinese counterparts were effective in face maintenance.

Out of the five cultural elements proposed, the renqing element is the only element that a weak to strong influence that act upon the joint venture negotiation process. A weak to moderate influence acts upon the SBU and regional controlled groups whereas a strong influence is exhibiting in the entrepreneurial group. A major reason is that renqing involves a bending of rule to help the Chinese partners, and SBU and the regional controlled groups were in a less flexible operational environment to help their Chinese partners.

5.5.2 Problem Solving Attitude (PSA)

Figure 5.13 is a clustered and site ordered summary table on foreign negotiators’ Problem Solving Attitude (PSA) which comprises two components i.e. information collection and information exchange. As mentioned by Graham (1986), the procession of PSA by both negotiation parties is important to a successful negotiation. As predicted, the PSA had strong influence on foreign firms’ joint venture negotiation process. PSA allowed all foreign firms within the database to carefully match their internal resources with their Chinese counterparts’ requirement. In saying that, the foreign firms endeavoured to find good Chinese partners by using their PSA that were vital important in China business.
Figure 5.13  Clustered and site order summary table on Problem Solving Attitude (PSA)

<table>
<thead>
<tr>
<th>Problem Solving Attitude (PSA)</th>
<th>Strategic Business Unit</th>
<th>Regional Controlled</th>
<th>Entrepreneurial</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>IBM</td>
<td>Otis</td>
<td>Kenwah</td>
</tr>
<tr>
<td>Predicted relationship on information collection: strong.</td>
<td>strong</td>
<td>strong</td>
<td>strong</td>
</tr>
<tr>
<td>Information collection</td>
<td>strong</td>
<td>Strong</td>
<td>strong</td>
</tr>
<tr>
<td>Predicted relationship on information exchange: strong.</td>
<td>strong</td>
<td>strong</td>
<td>strong</td>
</tr>
<tr>
<td>Information exchange</td>
<td>strong</td>
<td>Strong</td>
<td>strong</td>
</tr>
</tbody>
</table>

Figure 5.14 is a site-ordered meta-matrix of information collection evidence. Each evidence is labelled with a category grounding phrase (Miles and Huberman 1984) which reflects the nature of that evidence. In addition, no positive or negative qualification will be attached to each evidence. The information collected helped foreign firms influence their strategy formulation rather than having positive or negative impact on their decision.

According to figure 5.15, foreign firms, no matter what their typology, collected information from two sources: 1) formal information search and 2) field observation. In addition, some firms also employed some informal information search techniques. For example, Kenwah collected information from
Figure 5.14  Site-ordered Meta-Matrix of Information collection evidence

<table>
<thead>
<tr>
<th>Company</th>
<th>Information collection</th>
</tr>
</thead>
</table>
| IBM     | • Searched for potential projects from the Chinese government priority list which were subsequently validated by their guanxi members (Formal Information Search).  
          • Potential partners and information concerning about their background were studied (Formal analysis).  
          • Conducted ‘due diligence’ assignment on JV partners (Formal information search).  
          • Visited their potential production plants to obtain on-site information (Field observation). |
| Otis    | • Collected macro information concerning urban planning which helps them evaluate the market potential and production requirements (Formal information search).  
          • Collected information concerning the potential partners’ requirement including their technology requirement (Formal information search).  
          • Conducted ‘due diligence’ assignment on JV partners (Formal information search).  
          • Analysed the information and generated issues concerning the joint venture and put them on the joint venture proposal (Formal analysis).  
          • Visited their PRC partners’ site to obtain information (Field observation). |
| Bayer   | • Searched for potential partners from MOFTEC and the Ministry of Chemicals (Formal information search).  
          • Conducted ‘due diligence’ assignment on JV partners (Formal information search).  
          • Studied the market closely and matched the market requirements with their production requirements in China (Formal analysis).  
          • Studied the background of their PRC parties very carefully (Formal analysis).  
          • Visited their PRC production site to obtain information (Field observation). |
| Asia Link | • Appointed a good Chinese consultant to collect information concerning the Chinese market and their PRC partner (Formal information search).  
            • Internal reliability check on the consultancy report and also was confirmed by their connection in China (Formal analysis).  
            • Conducted ‘due diligence’ assignment on JV partner (Formal information search).  
            • Visited Chinese partner’s site to obtain information (Field observation). |
| Kenwah | • Collected vast amount of sales data from the previous State-owned factory and the factory owned by the factory manager from 1987 to the end of 1992 (Formal information search).  
          • Availability of sales data enabled him to comprehend the demand for edible oil in that region (Formal analysis).  
          • Frequent travel to China enabled him to collect market information from the Chinese officials (Informal information search).  
          • Visited the factory manager’s site to obtain information (Field observation).  
          • Visiting customers in PRC enabled Mr. Li to collect information of the channel of distribution (Field observation). |
| Synergie | • Foreign parties carried out formal check including request for financial statement and investigation of the Chinese parties’ capitals commitment and their political background (Formal information search).  
           • Checked the Chinese parties’ business objectives that were expressed on the local newspaper. These expressed objectives were crossed check with the information they collected directly from their Chinese partners (Informal information search).  
           • Foreign parties checked their Chinese parties’ intention and commitment from their guanxi members (Informal information search).  
           • Foreign parties also carried out some informal check on their Chinese parties’ capabilities of forming this joint venture (Informal information search).  
           • Foreign parties’ preliminary check on the market potential to identify the needs of their Chinese parties (Formal analysis).  
           • Foreign parties also visited the PRC partners’ sites to obtain information (Field observation). |
### Figure 5.15  Clustered Summary Table on Information Collection Method

<table>
<thead>
<tr>
<th>Method</th>
<th>Case mentioned</th>
<th>No. of cases</th>
<th>Illustrations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Field observation</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
<td>• Visited PRC production site to obtain information</td>
</tr>
<tr>
<td>Formal information search</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
<td>• Searched for potential projects from the government priority list which were later validated by guanxi members (IBM).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Collected information on PRC partners’ requirement including technology requirement (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Collected information on urban planning to evaluate market potential and PRC production requirements (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Searched for potential partners via MOFTEC and the Ministry of Chemicals (Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Appointed a Chinese consultant to collect information on Chinese market and partner (Asia Link).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Conducted ‘due diligence’ assignments (IBM, Otis, Bayer, Asia Link).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Sales data collected enabled Mr. Li to comprehend demand for edible oil in that region (Kenwah).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Carried out check on financial statement and investigation of the Chinese parties’ capitals commitment and their political background (Synergie).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• PRC parties’ and their background were studied (IBM, Otis, Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Studied market closely and matched the market with production requirements (Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Internal reliability check on the consultancy report and also was confirmed by their connection in China (Asia Link).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Availability of sales data enabled comprehension of demand for edible oil in that region (Kenwah).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Preliminary check on the market potential to identify needs of Chinese parties (Synergie).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Frequent travel to PRC to collect market information from officials (Kenwah).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Checked the Chinese parties’ objectives on local newspaper that were cross checked with the information collected directly from PRC partners (Synergie).</td>
</tr>
<tr>
<td>Informal information search</td>
<td>Kenwah, Synergie</td>
<td>2</td>
<td>• Checked the PRC parties’ intention and commitment from guanxi members (Synergie).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Foreign parties also carried out some informal check on their Chinese parties’ capabilities of forming this joint venture (Synergie).</td>
</tr>
</tbody>
</table>
### Figure 5.16 Site-ordered Meta-Matrix of Information Exchange Evidence

<table>
<thead>
<tr>
<th>Company</th>
<th>Information Exchange</th>
</tr>
</thead>
</table>
| IBM       | - IBM provided public information to the PRC partners *(Company information)*.  
- IBM specified their expectation to their Chinese counterparts *(Expectation exchange)*.  
- Through careful matching and information exchange, IBM could rightly search for a partner for a joint venture project *(Matching)*. |
| Otis      | - Otis mainly gave public information to their PRC partners *(Company information)*.  
- Otis gave their expectation to their Chinese counterparts *(Expectation exchange)*.  
- Through careful matching and information exchange, Otis could rightly search for a partner for a joint venture project *(Matching)*. |
| Bayer     | - Bayer mainly gave public information to their PRC partners *(Company information)*.  
- Bayer provided their expectation to their Chinese counterparts *(Expectation exchange)*.  
- Through careful matching and information exchange, Bayer searched for a partner for a joint venture project *(Matching)*. |
| Asia Link | - Asia Link provided public information to their PRC partner *(Company information)*.  
- Both companies exchange information by sharing their companies’ vision and identified differences *(Matching)*.  
- Asia Link provided company’s objectives, investment amount, profit expectation etc. through various meetings to their PRC partners *(Expectation exchange)*. |
| Kenwah    | - Comprehensive information exchange existed in this venture because the sales data available to both parties were identical before the establishment of this venture because they were in a buyer/seller situation *(Company information)*.  
- Kenwah’s sales forecast and profit expectation was given to this factory manager *(Expectation exchange)*.  
- Both parties matched their expectation and agreed upon their vision in the Chinese market *(Matching)*. |
| Synergie  | - Foreign parties provided their company information to their PRC counterparts *(Company information)*.  
- The foreign parties exchange information on their profit expectation and capital requirements by each party *(Expectation exchange)*.  
- Both sides agreed upon their expectation *(Matching)*. |

Chinese officials and Synergie validated the commitments from their guanxi members. After they collected the information, all firms formally analysed the information.

Figure 5.15 is a clustered Summary Table on information collection methods. As shown, all foreign firms field-visited their PRC partners’ plant to collect information on their operations. However, their fieldwork was limited to providing information on current behaviour (Aaker et al, 1995) which needed to be supplemented by formal information search. The sources for information included 1) the government planning agencies; 2) the PRC partners; 3) MOFTEC; and 3) market consultant. In addition, the SBU and the regional controlled groups also employed outside consultants to carry out
"due diligence" assignments on their PRC partners to make sure they were dealing with the right partners. The relatively small companies i.e. Kenwah and Synergie, tended to employ more simple investigation by looking at the financial statements and sales data of their PRC counterparts. Foreign firms also carried out formal analyses on their PRC counterparts that included analysis on their PRC parties' business backgrounds, market studies and reliability check on the consultancy report.

Interestingly, the entrepreneurial group of firms i.e. Kenwah and Synergie supplemented their formal information search by some informal information search. For example, Synergie checked up their PRC partners' intention and commitment from their guanxi member in addition to their collection of their PRC partners' information on newspaper, and Kenwah collected information from Chinese officials. This may be attributed to the fact that smaller firms such as Kenwah and Synergie lacked of the financial resources to carry out a more formal information search and also their scale of joint ventures would not justify such formal investigations.

Figure 5.16 is a site-ordered meta matrix of information exchange. Similar to the presentation format of information collection, every evidence is labelled with a category-grounding phrase according to their nature. After the labelling was finished, the exchange between foreign firms and their PRC counterparts surrounded three areas: 1) company information exchange 2) company's expectation exchange and 3) matching of both sides' requirements. Figure 5.17 is a clustered summary table on information exchange method.

**Figure 5.17 Clustersummary Table on Information Exchange Method**

<table>
<thead>
<tr>
<th>Method</th>
<th>Case mentioned</th>
<th>No. of cases</th>
<th>Illustrations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company information</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
<td>• Foreign parties gave company information to their PRC counterparts.</td>
</tr>
<tr>
<td>Expectation exchange</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
<td>• Foreign parties provided their expectation such as sales, profits, market shares to their PRC counterparts. They also shared their vision in the Chinese market.</td>
</tr>
<tr>
<td>Matching</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
<td>• Foreign and Chinese parties matched their expectation and made agreement.</td>
</tr>
</tbody>
</table>

In summary, the Problem Solving Attitude (PSA) consists of two components i.e. information collection and information exchange. All foreign firms within the database employed information collection methods including field observation, formal information search and formal analyses on their PRC counterparts. Smaller foreign firms such as Kenwah and Synergie would also employ informal information search from their guanxi members and Chinese officials because of their limitation in financial resources, and the scale of their joint venture would not justify for formal information search via market consultants. Besides information collection, foreign firms also
exchanged information with their PRC counterparts that included exchanging company information, exchanging inter-company expectation and matching those expectations together. Figure 5.18 is a summary table on the PSA employed by these foreign firms.

Figure 5.18 Summary table on Problem Solving Attitude (PSA)

<table>
<thead>
<tr>
<th>Information collection</th>
<th>Information Exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Field observation</td>
<td>• Company information</td>
</tr>
<tr>
<td>• Formal information search</td>
<td>• Expectation exchange</td>
</tr>
<tr>
<td>• Informal information search</td>
<td>• Matching</td>
</tr>
<tr>
<td>• Formal analysis</td>
<td></td>
</tr>
</tbody>
</table>

5.6 JOINT VENTURE OUTCOME

Figure 5.19 Clustered and site-ordered table on joint venture outcome

<table>
<thead>
<tr>
<th>company</th>
<th>Profit</th>
<th>Market Penetration</th>
<th>Management experience</th>
<th>Product sourcing</th>
<th>Creditability and reputation</th>
<th>Future investment</th>
<th>Learning experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>high</td>
<td>high</td>
<td>moderate</td>
<td>Moderate</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Bayer</td>
<td>moderate</td>
<td>high</td>
<td>moderate</td>
<td>Moderate</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Otis</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Asia Link</td>
<td>high</td>
<td>high</td>
<td>weak</td>
<td>Moderate</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Kenwah</td>
<td>high</td>
<td>high</td>
<td>moderate</td>
<td>high</td>
<td>high</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Synergie</td>
<td>low</td>
<td>Moderate</td>
<td>moderate</td>
<td>Moderate</td>
<td>low</td>
<td>high</td>
<td>high</td>
</tr>
</tbody>
</table>

Figure 5.19 is a clustered and site-ordered table on joint venture outcome. As shown, all foreign firms except Otis have inconsistent satisfaction levels on all joint venture outcome evaluation variables which is held true for either foreign firms within a group or across all foreign firms within the database, even though they all negotiated successfully in China. A major reason contributing to this phenomenon is that Otis has been participating in the Chinese market since 1984 and has developed a corporate culture that is similar to that of the home country. Also, their negotiation has been strongly influenced by their regional head office in Singapore. Therefore, it is reasonably assumed that their joint venture operation mode has been identical to those in other overseas countries that are important to Otis’ global product quality image and permits easy transfer of global research and development results to the Chinese operations. The successful implementation of modern management systems such as JIT, bar coding, Computer Assisted Design (CAD) in their Guangzhou plant is a typical proof of the above arguments.

The inconsistent joint venture outcomes suggests that the joint venture negotiation model which the author proposed on figures 3.5 and 3.6 does not have a predictive ability on the joint venture outcome.
satisfaction. However, the model does have the ability to predict that a firm will have a successful negotiation when that firm follows the process model proposed as shown in individual case analysis.

Figure 5.20  Clustered and site-ordered table on joint venture outcome and economic environment

<table>
<thead>
<tr>
<th>company</th>
<th>Economic environment encouragement level</th>
<th>Future investment</th>
<th>Learning experience</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>Strong</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Bayer</td>
<td>Strong</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Otis</td>
<td>Strong</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Asia Link</td>
<td>Strong</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Kenwah</td>
<td>Strong</td>
<td>high</td>
<td>high</td>
</tr>
<tr>
<td>Synergie</td>
<td>Strong</td>
<td>high</td>
<td>high</td>
</tr>
</tbody>
</table>

Two joint venture outcome variables, “future investment intention” and “learning experience”, however, are consistent and are highly ‘correlated’ with the economic environments as shown in figure 5.20. Foreign firms, therefore, are more concerned with the general economic environments for their future investment. Again these prosperous economic environments force these firms to learn so that they can participate in the Chinese market.

The above discussions generally describe the joint venture outcomes. The following sections are used to depict individual outcomes and the factors or categories of reasons that influenced these firms to have such outcomes. The author will employ the same techniques that are identical to the environmental analyses. First, the reasons of individual joint venture outcome satisfaction for all cases will be summarised on a site ordered meta matrix. Each reason will be dichotomised into positive/negative qualification and a category-grounding phrase will be given to each reason. Second, all grounding phrases will be re-arranged according to their negative/positive qualifications so that underlying ‘factors’ which influenced these firms to have these joint venture outcomes can be determined.

5.6.1 Profit Satisfaction

Figure 5.21 is a site-ordered meta-matrix of foreign firms’ profit satisfaction in China and figure 5.22 is a clustered summary table on Positive/Negative Profit Satisfaction reasons. There were five major categories of reasons which enabled foreign companies in this database to earn profits in China i.e. 1) flexible arrangement, 2) confidence, 3) market share, 4) market growth and 5) accumulative experience. There are two negative categories that hindered companies to enjoy their fruits in this market i.e. 1) short involvement and 2) lack of co-ordination. The supporting reasons for these arguments are listed on the left-hand side of the table.
5.6.2 Market Penetration

Figure 5.23 is a site-order meta matrix of market penetration satisfaction and figure 5.24 is a clustered summary table on Positive/Negative Penetration Satisfaction reasons. There were five major categories of factors that help foreign firms penetrate the Chinese market i.e. 1) guanxi, 2) market share, 3) timing, 4) training and 5) product differentiation. There is only one category which hinder these firms i.e. lack of co-ordination.

**Figure 5.21 Site-ordered Meta-Matrix of Profit Satisfaction in China**

<table>
<thead>
<tr>
<th>Company</th>
<th>Overall Encouragement Level</th>
<th>Reasons</th>
<th>Impact</th>
</tr>
</thead>
</table>
| IBM     | high                       | • Flexible co-operative JV arrangements allowed IBM to quickly recover their investment in China (flexible arrangement).  
|         |                            | • Accumulative China business experience enabled IBM to earn satisfactory profit (accumulated experience).  
|         |                            | • The extension of contract terms in two of their joint ventures indicated that their operation profit was satisfactory and confidence is high (confidence). | +     |
| Otis    | high                       | • Otis Tianjin has been very successful taking 25% of the domestic market. The profit return on investment in Tianjin was extraordinary high. (market share).  
|         |                            | • Otis putting in US$ 15 million into their Guangzhou joint venture in 1994 indicated their confidence in future profit was high (confidence).  
|         |                            | • Otis received a total order of 5,000 escalators and elevators in 1996 that definitely have substantial profit contribution to Otis Asia Pacific sales level of 14,000 escalators and elevators in 1995 (market share). | +     |
| Bayer   | moderate                   | • Most of their joint ventures have only been in operation since November 1996 and therefore profit has not been recognised (short involvement).  
|         |                            | • They expected to have a profit in about 4 to 8 years that is reasonable for relatively large scale projects (confidence).  
|         |                            | • Comments from other experts within the industry show that the future profit for this industry is excellent (confidence). | -     |
| Asia Link | high                      | • The profit performance for this joint venture has been satisfactory because of the enormous growth in the Chinese market (market growth).  
|         |                            | • The flexibility of Co-operative joint venture arrangement allowed Asia Link to skim profits from the market quickly (flexible arrangement). | +     |
| Kenwah  | high                       | • Flexible co-operative JV terms allowed investment to be recovered in a short run. (flexible arrangement).  
|         |                            | • Kenwah was expecting a sales of Rmb $ 1.8 billion in 1997. It is reasonably assumed that the profit was satisfactory (market share). | +     |
| Synergie | low                        | • Lack of co-ordination among parties in the daily operation means important decisions could not be made easily that implies sales pick up was slow (lack of co-ordination).  
|         |                            | • Lack of export sales means sales was only limited to a domestic level that was premature to use such high technology (short involvement). | -     |
5.6.3 Management Experience

Figure 5.25 is a site-ordered meta matrix of management experience satisfaction table and figure 5.26 is a clustered summary table on Positive/Negative Management Experience Satisfaction reasons.

There were three categories of reasons which had positive influence on the firms’ management experience in China i.e. quality of workforce in China, firms’ management investment and its low management cost. High quality of workforce was found in the computer (IBM and Synergie) and the chemical (Bayer) industries at the technical and middle management levels. In oligopolistic industry such as lift and elevator, a company such as Otis is willing to invest in the human resources area. On the contrary, Kenwah saved management cost by employing local Chinese in their joint venture in China.
## Clustered summary table on Positive/Negative Profit Satisfaction reasons

<table>
<thead>
<tr>
<th>Categorisation</th>
<th>Case mentioned</th>
<th>No. of cases</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Flexible arrangement</td>
<td>IBM, Asia Link, Kenwah</td>
<td>3</td>
<td>• Flexible co-operative JV arrangements allowed quick recovery on investment and quick profit skimming in China (IBM, Asia Link, Kenwah).</td>
</tr>
<tr>
<td></td>
<td>IBM, Otis, Bayer</td>
<td>3</td>
<td>• The extension of contract terms in two of their joint ventures indicated that confidence is high (IBM).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• US$ 15 million has been put into their Guangzhou joint venture indicated confidence is high (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Expected to have a profit in about 4 to 8 years that is reasonable for relatively large-scale projects (Bayer).</td>
</tr>
<tr>
<td></td>
<td>Otis, Kenwah</td>
<td>2</td>
<td>• Otis Tianjin has been very successful taking 25% of the domestic market (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Received a total order of 5,000 escalators and elevators in 1996 that definitely have substantial profit contribution to Otis Asia Pacific sales level of 14,000 escalators and elevators in 1995 (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Was expecting a sales of Rmb $ 1.8 billion in 1997. It is reasonably assumed that the profit was satisfactory (Kenwah).</td>
</tr>
<tr>
<td>Market share</td>
<td>Asia Link</td>
<td>1</td>
<td>• The profit performance for JV has been satisfactory because of the enormous growth in the Chinese market (Asia Link).</td>
</tr>
<tr>
<td>Market growth</td>
<td>IBM</td>
<td>1</td>
<td>• Accumulative China business experience enabled earning satisfactory profit (IBM).</td>
</tr>
<tr>
<td>Accumulated experience</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Negative</strong></td>
<td>Bayer, Synergie</td>
<td>2</td>
<td>• Most of their joint ventures have only been in operation since November 1996 and therefore profit has not been recognised (Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Lack of export means sales was only limited to a domestic level that was premature to use such high technology (Synergie).</td>
</tr>
<tr>
<td>Short involvement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lack of co-ordination</td>
<td>Synergie</td>
<td>1</td>
<td>• Lack of co-ordination among parties in the daily operation means important decisions could not be made easily which implies sales pick-up was slow (Synergie).</td>
</tr>
</tbody>
</table>

There were three factors which had negative influence on the management experience i.e. management difficulty, recruitment difficulty and expensive management cost. Traditional Chinese management style that emphasises authority limited the Chinese managers to accept the modern Western management concept and produced difficulty in daily operations in the foreign ventures (Asia Link, Kenwah, and Synergie). Recruitment was difficult as reported by IBM and Bayer especially at the senior levels. Also, management cost of a joint venture increased if expatriates were operating it. Alastair Briton of General Motor agreed: "it was very expensive to keep expatriates in China. We had to use half a million US dollars annually to keep a man up there. They needed about six months to warm up and started doing the work. They then worked for about 12 months and prepared to leave China on a two year contract!"
### Site-ordered Meta-Matrix of Market Penetration Satisfaction in China

<table>
<thead>
<tr>
<th>Company</th>
<th>Overall Encouragement Level</th>
<th>Reasons</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>high</td>
<td>- IBM’s excellent <em>guanxi</em> with the Ministry of Electronics (MOE) help develop distribution channel (<em>guanxi</em>).&lt;br&gt;- The signing of Memorandum of Understanding with MOE to use IBM technology platform in all MOE organisations helped IBM penetrate the PRC market (<em>guanxi</em>).&lt;br&gt;- The establishments of various software joint ventures enable IBM to train local technicians to work on IBM technology platform. These IBM trained technicians certainly help disseminate IBM products and services in the future (training).&lt;br&gt;- Local manufacturing of IBM PC can help reduce competition and cost and effect better penetration (market leadership)</td>
<td>+</td>
</tr>
<tr>
<td>Otis</td>
<td>high</td>
<td>- Otis Shanghai has been penetrating into every major cities in the Chinese market (market share).&lt;br&gt;- Otis Tianjin clinched US$11 million contract in Tianjin to supply elevators and 42 escalators to Guolian project in Cheng Chun in 1995 (market share).&lt;br&gt;- Otis Tianjin booked US$8.7 million contract for 54 units in Shenzhen Economic Corp Building in Shenzhen (market share).&lt;br&gt;- Record breakers of Otis’ orders at provincial levels promoted their market leadership image (market share).</td>
<td>+</td>
</tr>
<tr>
<td>Bayer</td>
<td>high</td>
<td>- Signing of a comprehensive agreement with Ministry of Chemicals served as a co-operative platform of Bayer’s participation into the PRC market (<em>guanxi</em>).&lt;br&gt;- Bayer’s excellent <em>guanxi</em> with Ministry of Chemicals strongly supported them in finding appropriate parties and hence distribution channels in the PRC market (<em>guanxi</em>).&lt;br&gt;- Bayer have been speedily entering into every segment of the chemical industry indicated that their penetration have been excellent (timing).</td>
<td>+</td>
</tr>
<tr>
<td>Asia Link</td>
<td>high</td>
<td>- Market penetration is heavily relied upon for the penetration of Unicom mobile network. Unicom recruited 30,000 subscribers in 1996. Satisfaction level on market penetration is high in second year of operation (<em>guanxi</em>).&lt;br&gt;- Unicom attempted to share 30% of the total telecommunication market in China and make Asia Link’s further penetration into the Chinese market possible (<em>guanxi</em>).&lt;br&gt;- China Unicom’s strategy is to have long term co-operation with foreign investors to share the fruits of the Chinese market (<em>guanxi</em>).</td>
<td>+</td>
</tr>
<tr>
<td>Kenwah</td>
<td>high</td>
<td>- Good <em>guanxi</em> between the factory management and the customers allowed them to grow (<em>guanxi</em>).&lt;br&gt;- The joint venture becomes the largest manufacturer in the locality in a five-year time frame (market share).&lt;br&gt;- Kenwah had approximately 50% of the market in 1997 which means their penetration was extremely high (market share).&lt;br&gt;- Kenwah dominated the domestic market and their competitors had to respond to their price change (market share).</td>
<td>+</td>
</tr>
<tr>
<td>Synergie</td>
<td>moderate</td>
<td>- Taking into account the complicated partnership composition and establishment of this venture, slow market penetration was unavoidable (lack of co-ordination).&lt;br&gt;- However, lack of similar product in the Chinese market may induce trial from the market that certainly helped market penetration (product differentiation).</td>
<td>-</td>
</tr>
</tbody>
</table>

### 5.6.4 Product Sourcing

Figure 5.27 is site-ordered meta-matrix of product sourcing satisfaction in China for these foreign firms and figure 5.28 is a clustered summary table on positive/negative sourcing experience.
satisfaction reasons. As shown there were three underlying dimensions that had positive encouragement on the sourcing satisfaction i.e. domestic sourcing, competitive sourcing and intra-

**Figure 5.24** Clustered summary table on Positive/Negative Penetration Satisfaction reasons

<table>
<thead>
<tr>
<th>Categorisation</th>
<th>Case Mentioned</th>
<th>No. of Cases</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Positive</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| guanxi         | IBM, Bayer,    | 4            | • Excellent guanxi with the various Ministries help develop distribution channel (IBM & Bayer).  
                | Asia Link,     |              | • Signing agreements with various ministries provided co-operative platforms to penetrate the Chinese market (IBM & Bayer).  
                | Kenwah         |              | • Have been growing together with business partner (Asia Link).  
                |                |              | • Have been growing together with customers (Kenwah).  
| market share   | Otis, Kenwah   | 2            | • Becomes a leader in market share and has obtained 50% of the Chinese market (Otis).  
                |                |              | • The joint venture becomes the largest manufacturer in the locality in a five-year time frame and obtains 50% of the market in that region (Kenwah).  
| timing         | Bayer          | 1            | • Have been speedily entering into every segment of the chemical industry indicated that their penetration have been excellent (Bayer).  
| training       | IBM            | 1            | • The establishments of various software joint ventures enable IBM to train local technicians to work on IBM technology platform. These IBM trained technicians certainly help disseminate IBM products and services in the future (IBM).  
| product        | Synergie       | 1            | • However, lack of similar product in the Chinese market may induce trial from the market that certainly helped market penetration (Synergie).  
| differentiation |                |              |         |
| **Negative**   |                |              |         |
| lack of co-ordination | Synergie | 1            | • Taking into account the complicated partnership composition and establishment of this venture, slow market penetration was unavoidable (Synergie).  

company transfer. According to Keegan (1995), there are six basic factors in sourcing decisions: 1) factoring costs and availability; 2) logistic: time required to fill orders, security and safety, and transportation costs; 3) country infrastructure, 4) political risk, 5) market access (tariff and non-tariff barriers to trade and 6) exchange rate, availability, and convertibility. Foreign firms attempted to decide the sourcing decisions according to these six factors. For example, IBM's domestic sourcing decision evolved around the political and cost factors whilst other foreign firms’ domestic sourcing strategies were heavily cost and logistic driven. These domestic sourcing activities also released pressure on using foreign exchange to purchase imported materials. Foreign firms also used other methods e.g. competitive sourcing strategy and intra company transfer to lower their cost of sourcing.
<table>
<thead>
<tr>
<th>Company</th>
<th>Encouragement Level</th>
<th>Reasons</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>moderate</td>
<td>- The management experience of middle level Chinese computer professionals is pleasant. Their quality is reasonable and at least equal to that of Thailand and India. <em>(quality workforce).</em></td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- It is difficult to find senior management personnel in China who understands modern management concepts <em>(recruitment difficulty).</em></td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- It is expensive to keep senior expatriates in China <em>(expensive management cost).</em></td>
<td>-</td>
</tr>
<tr>
<td>Otis</td>
<td>high</td>
<td>- With more than 14 years of operation experience in China since 1984, Otis has accumulated vast human resource management experience <em>(management investment).</em></td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Their training centres in Tianjin and Guangzhou enable Otis to train local management level personnel which is important to Otis development in China <em>(management investment).</em></td>
<td>+</td>
</tr>
<tr>
<td>Bayer</td>
<td>moderate</td>
<td>- The new generation of Chinese managers are well educated and well prepare to accept challenging works which is beneficial to the growth of Bayer in China <em>(quality workforce).</em></td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Recruiting qualified staffs have been difficult <em>(recruitment difficulty).</em></td>
<td>-</td>
</tr>
<tr>
<td>Asia Link</td>
<td>low</td>
<td>- The nature of the co-operative joint venture limited Asia Link’s participation in day to day management of the venture <em>(limited involvement).</em></td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- The Chinese management concept needed to be modernised to make a more effective management <em>(management difficulty).</em></td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- There is no direct management information system in this joint venture <em>(management difficulty).</em></td>
<td>-</td>
</tr>
<tr>
<td>Kenwah</td>
<td>moderate</td>
<td>- Mr. Li has not sent any personnel from Hong Kong to involve in the daily management of the venture because of their confidence in the factory manager’s ability and management cost was kept to a minimum <em>(low management cost).</em></td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- The factory manager’s management style is a bit old fashion and therefore Kenwah may have to send personnel from Hong Kong to manage that joint venture in the future <em>(management difficulty).</em></td>
<td>-</td>
</tr>
<tr>
<td>Synergie</td>
<td>moderate</td>
<td>- The management of local employees was not a pleasant experience because of difference in cultural background. Western management concept could not be fully implemented <em>(management difficulty).</em></td>
<td>-</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Co-ordination of management ideas were difficult <em>(management difficulty).</em></td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- However, good understanding on local condition by local personnel helps company’s development when they are properly trained <em>(quality workforce).</em></td>
<td>-</td>
</tr>
</tbody>
</table>

There were three factors which hindered foreign firms’ sourcing activities in China 1) inconsistent product qualities supplied by local suppliers, 2) local products were not competitively priced and 3) ineffective reporting system on cost.

### 5.6.5 Credibility and reputation

Figure 5.29 is a site-ordered meta-matrix of credibility and reputation satisfaction of foreign firms in China and Figure 5.30 is a clustered summary table on positive/negative credibility and reputation Satisfaction reasons. As shown on figure 5.29, the encouragement level ranges from low to high that
implies that reasons given will have positive/negative qualifications to generate different encouragement levels.

Figure 5.26  Clustered summary table on Positive/Negative Management Experience Satisfaction reasons

<table>
<thead>
<tr>
<th>categorisation</th>
<th>case mentioned</th>
<th>no. of cases</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>positive</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>quality work-force</td>
<td>IBM, Bayer, Synergie</td>
<td>3</td>
<td>• Management of middle level local computer professional is pleasant because of their reasonable quality (IBM).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• The new generation of Chinese managers is well educated and well prepared to accept challenging works that is beneficial to growth (Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Good understanding on local condition of the local personnel helps company's development when they are properly trained (Synergie).</td>
</tr>
<tr>
<td>management investment</td>
<td>Otis</td>
<td>1</td>
<td>• Has accumulated vast human resource management experience after lengthy participation in China (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Training centres in Tianjin and Guangzhou provided training to local management level personnel (Otis).</td>
</tr>
<tr>
<td>low management cost</td>
<td>Kenwah</td>
<td>1</td>
<td>• Absence of any expatriate in the daily management saved management cost (Kenwah).</td>
</tr>
<tr>
<td>Negative</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>management difficulty</td>
<td>Asia Link, Kenwah, Synergie</td>
<td>3</td>
<td>• The Chinese management concept needed to be modernised to make a more effective management (Asia Link).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• There is no direct management information system in this joint venture (Asia Link).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Chinese management style is a bit old fashion (Kenwah).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Different cultural background constrained western management concept to be fully implemented (Synergie).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Co-ordination of management ideas were difficult (Synergie).</td>
</tr>
<tr>
<td>recruitment difficulty</td>
<td>IBM, Bayer</td>
<td>2</td>
<td>• It is difficult to find senior management personnel who have modern management concepts (IBM).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Recruiting qualified staff has been difficult (Bayer).</td>
</tr>
<tr>
<td>expensive management cost</td>
<td>IBM</td>
<td>1</td>
<td>• It is expensive to keep senior expatriates in China (IBM).</td>
</tr>
</tbody>
</table>

The category grounding phrases of these reasons are listed on figure 5.30. Categories of reasons that give positive encouragement on credibility and reputation satisfaction include 1) corporate identity, 2) guanxi, 3) extensive market coverage, 4) face and 5) authority.

Maintaining corporate identity enables foreign firms to pursue long run self-interest (Lamb et al 1994). By helping to make the environment a better place in which to live and work, business creates conditions that are favourable for its survival and profitability. For example, IBM made high profile donations to the general public and hope that the central government could reciprocate by giving them better business environment. Likewise, Otis published a book to inform the industry of their leadership position. Bayer and Asia Link, on the contrary, created their corporate identities by building up expert image in their industries.
Figure 5.27  Site-ordered Meta-Matrix of Product Sourcing Satisfaction in China

<table>
<thead>
<tr>
<th>Company</th>
<th>Overall Encouragement Level</th>
<th>Reasons</th>
<th>Impact</th>
</tr>
</thead>
</table>
| IBM     | Moderate                    | • Domestic sourcing impresses central government on IBM’s commitment to exist in China as a local rather than foreign company (domestic sourcing).  
• Domestic sourcing enables IBM to reduce cost (domestic sourcing).  
• Inconsistent product quality supplies have considerable impact on their operations in China (inconsistent product quality). | + |
| Otis    | High                        | • Otis’ Tianjin plant committed in local sourcing since 1984 to reduce cost (domestic sourcing).  
• The implementation of JIT concept at Otis Guangzhou implies co-operation with local suppliers is a necessity (domestic sourcing). | + |
| Bayer   | Moderate                    | • Bayer sourced local materials in addition to imported products (domestic sourcing).  
• The price of locally sourced product quoted by MOFTEC was high and hindered Bayer’s sourcing activities in China (expensive material).  
• Further opening up of the Chinese economy and China’s determination to join the WTO will force domestic producers to make better products at more competitive prices in order to join the international community (competitive sourcing). | + |
| Asia Link | Moderate                  | • An effective accounting system is not in place, cost control measure has not been totally effective (ineffective reporting system).  
• Most of the material can be sourced in China (domestic sourcing).  
• However, lack of effective cost tracking records make future procurement difficult (ineffective reporting system). | - |
| Kenwhah | high                       | • The raw oil is being transferred via Kenwhah Hong Kong and therefore profitability is ensured (intra-company transfer).  
• Because of the factory manager’s excellent Guanxi with the local suppliers, they have no problem in sourcing other major materials locally. For example, they have no difficulty in securing an alkaline-based material to process their oil (domestic sourcing). | + |
| Synergé | moderate                   | • Some of the components for their turkey projects could be sourced from the domestic market that contributed to the growth of their joint venture in China (domestic sourcing).  
• The qualities of these components, however, were inconsistent (Inconsistent product quality). | + |

Extensive market coverage is vital to establish reputation and credibility. IBM used this strategy to become market leader, and Kenwhah used it to become a regional leader in the Chinese market.

Surprisingly, cultural elements are important in establish credibility and reputation in the Chinese market! As the data indicated, guanxi was an important corporate strategy for companies like IBM and Otis to establish their credibility and reputation. In saying that, guanxi is an additional insurance on top of business substance in China business. Mr. Zhang Jingzhi, general manager of Jebsen & Co. Ltd provided an explanation: “people in the PRC emphasise on guanxi to protect their business because the legal system in China is yet to be perfected. They rely on friends to do business!” Again, face (mianzi) and authority concepts were employed by Kenwhah to establish their reputation and credibility on a regional basis. According to Brunner (1988), mianzi can be gradually increased by personal
endeavour such as hard work, authority, social status or connections, personal services benefiting the society, superior intellectual knowledge or skilful negotiation. As such, these two variables can be complementary of one another. Kenwah is a typical example of this complementary concept.

There are three factors that give negative encouragement on foreign firms’ credibility and reputation in China i.e. 1) short history 2) aggressive competition and 3) low market coverage. Short history limited a foreign firm’s prospective to establish good relationship or guanxi with their Chinese partners and customers. Aggressive competition diluted customers’ loyalty and hence a foreign firm’s bargaining power on their customers. Low market coverage limited the scope of operations and therefore reputation and credibility will not increase.

5.6.6 Investment Intention

Figure 5.31 is a site-ordered meta-matrix of investment intention satisfaction and figure 5.32 is a clustered summary table on investment intention satisfaction reasons. Unlike the above satisfaction
evaluation dimensions, all firms had high encouragement ratings which imply all the reasons of encouragement have positive impact on satisfaction in this dimension.

Figure 5.29  Site-ordered Meta-Matrix of Credibility and reputation satisfaction in China

<table>
<thead>
<tr>
<th>Company</th>
<th>Overall Encouragement Level</th>
<th>Reasons</th>
<th>Impact +/-</th>
</tr>
</thead>
</table>
| IBM     | high                        | • IBM has established excellent  
guanshi with local customers  
(guanshi).  
• High profile donations to various commercial sectors  
enable IBM to establish corporate identity  
(corporate identity).  
• Effective penetration into different segments of the market  
enables IBM to bypass AST to become no. 1 computer  
supplier in China in 1995 (extensive market coverage). | +         |
| Otis    | high                        | • The establishment of excellent guanshi with customers in  
major Chinese cities enable Otis to build up their reputation  
and credibility (guanshi).  
• Otis increased their reputation by publishing a trade book  
"A Spiritual Resonance: The Vernacular Dwellings of China" which called for conservation of buildings  
(corporate identity). | +         |
| Bayer   | moderate                    | • Bayer’s credibility and reputation in the industrial market is  
excellent because of their historical record in this market  
(corporate identity).  
• Aggressive competition diluted customer loyalty  
(aggressive competition). | +         |
| Asia Link | moderate                  | • Started building up credibility and reputation in the high tech  
area of the telecommunication market (corporate identity).  
• Not long enough in the Chinese market render low in  
credibility and reputation (short history). | +         |
| Kerwa   | high                        | • Because the factory manager earned a lot of respect in the  
locality, there is no problem in the credibility (face).  
• Everybody knows their joint venture in Wuhan because it is  
the largest in that locality (extensive market coverage).  
• They employed a lot of people in that locality (authority). | +         |
| Synergie | low                        | • Short history of the joint venture implied market awareness  
was low (short history).  
• Slow in sales implied market coverage was low (low market coverage). | -         |

All foreign firms agreed that their investment intentions stemmed from the market opportunity in this market. For example, IBM, Otis and Asia Link considered that the Chinese market will become the biggest or one of the biggest global markets in their industries and therefore they endeavoured to look for opportunity for growth. Besides looking for opportunity, firms also increased their involvement by either enlarging the size of each investment or expanding the controlling interest in each venture. One firm, Synergie, diversified their investments into different areas in the market.

5.6.7 Learning Experience

Figure 5.33 is a site ordered meta matrix of these learning satisfaction and figure 5.34 is a clustered summary table on their learning experience satisfaction reasons. All firms were assigned a high
encouragement rating in their learning experience in China and all reasons given by the firms under study had positive impact on their satisfaction.

**Figure 5.30 Clustered summary table on Positive/Negative credibility and reputation Satisfaction reasons**

<table>
<thead>
<tr>
<th>Categorisation</th>
<th>Case mentioned</th>
<th>No. of cases</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Positive</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
| Corporate identity | IBM, Otis, Bayer, Asia Link | 4 | • High profile donations to various commercial sectors enable IBM to establish corporate identity (IBM).  
• Otis increased their reputation by publishing a trade book “A Spiritual Resonance: The Vernacular Dwellings of China” which called for conservation of buildings (Otis).  
• Bayer’s credibility and reputation in the industrial market is excellent because of their historical record in this market (Bayer).  
• Started building up credibility and reputation in the high tech area of the telecommunication market (Asia Link). |
| guanxi | IBM, Otis | 2 | • IBM have established excellent guanxi with local customers (IBM).  
• The establishment of excellent guanxi with customers in major Chinese cities enables Otis to build up their reputation and credibility (Otis). |
| extensive market coverage | IBM, Kenwha | 2 | • Effective penetration into different segments of the market enables IBM to bypass AST to become no. 1 computer supplier in China in 1995 (IBM).  
• Everybody knows Kenwha’s joint venture in Wuhan because it is the largest in that locality (Kenwha). |
| face | Kenwha | 1 | • Because the factory manager earned a lot of respect in the locality, there is no problem in the credibility (Kenwha). |
| authority | Kenwha | 1 | • They employed a lot of people in that locality (Kenwha). |
| Negative | | | |
| short history | Asia Link, Synergie | 2 | • Not long enough in the Chinese market render low in credibility and reputation (Asia Link, Synergie). |
| aggressive competition | Bayer | 1 | • Aggressive competition diluted customer loyalty (Bayer). |
| low market coverage | Synergie | 1 | • Slow in sales implied market coverage was low (Synergie). |

As shown on figure 5.34, there are four categories of reasons i.e. 1) patience, 2) cultural appreciation, 3) consistent policy and 4) cost minimisation that contributed to their satisfaction in China. All firms agreed that patience was important when they negotiated joint venture in China. As the author mentioned in section 3.6.2 to 3.6.4, the Chinese are very good at manipulation of time, creation of tension and re-negotiation of contract terms. Foreign negotiators must possess superior relationship management skills and be patient in these kinds of situations (Leung et al 1995). In addition, the
complicated bureaucratic and legal procedures that the author mentioned in figure 2.13 in chapter 2 also force the foreign negotiators to be patient.

Figure 5.31 Site-ordered Meta-Matrix of Investment Intention satisfaction in China

<table>
<thead>
<tr>
<th>Company</th>
<th>Overall Encouragement Level</th>
<th>Reasons</th>
<th>Impact +/-</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>high</td>
<td>- IBM perceived that China will become the largest market with fastest growth and surely will look for future investment opportunity (market opportunity). - Increase their controlling interest in their newest joint venture in Beijing that indicates the determination in the Chinese market (increasing involvement).</td>
<td>+</td>
</tr>
<tr>
<td>Otis</td>
<td>high</td>
<td>- The increase of investment from the initial US$ 1.5 million in their first joint venture in Tianjin to US$ 15 million in the joint venture in Guangzhou indicated their total commitment in the Chinese market (increasing involvement). - The establishment of Otis China as a holding company in 1997 further shows their confidence to organise China market as a separate business and to continue looking for opportunity (market opportunity).</td>
<td>+</td>
</tr>
<tr>
<td>Bayer</td>
<td>high</td>
<td>- Future investment intention is high. Current JV negotiations include a polycarbonate, an agricultural insecticides project, an animal health products and a citric acid joint ventures (market opportunity). - They also signed a letter of intent to form a synthetic rubber joint venture with Gao-Qiao with investment of up to US$ 100 million (increasing involvement).</td>
<td>+</td>
</tr>
<tr>
<td>Asia Link</td>
<td>high</td>
<td>- High growth in the Chinese market make investment intention extremely positive (market opportunity). - Flexible practices of the China Unicom in attracting foreign investment provided a good intention to Asia Link to seek future investment opportunity in China (increasing involvement).</td>
<td>+</td>
</tr>
<tr>
<td>Kenuwa</td>
<td>high</td>
<td>- They have a very favourable performance and surely they will look for opportunity to invest in China (market opportunity).</td>
<td>+</td>
</tr>
<tr>
<td>Synergic</td>
<td>high</td>
<td>- Mr. So is very confident in his future investment intention in China because of his in-depth understanding of the Chinese market potential (market opportunity). - Diversified investment could enjoy all business opportunity in China (market diversification).</td>
<td>+</td>
</tr>
</tbody>
</table>

Foreign firms also agreed that a cultural appreciation attitude must be adapted when negotiating a joint venture in China. China is basically a socialist country that is under-going a modernisation drive. It actually adopts a conceptual framework of maintaining a dual track system on Marxism and western modernisation. Recall Deng’s (1983, p.3) selected work from chapter 2 section 2.4: "China has to adopt a realistic approach to its modernisation. Whether it is revolution or industrialisation, we have to borrow experience from the foreign countries. However, direct copying the model and experience from another country seldom render complete success. We have to combine the Marxism ideology with our own solid experience to practice socialism with Chinese characteristics. We conclude this from our historical evidence."
In saying the above, China needs the Western technology but not its ideology. Therefore, foreign negotiators need to appreciate the Chinese culture when negotiating joint venture projects in China.

IBM

Figure 5.32  Clustered summary table on Positive Investment Intention Satisfaction reasons

<table>
<thead>
<tr>
<th>Categorisation</th>
<th>case mentioned</th>
<th>no. of cases</th>
<th>Reasons</th>
</tr>
</thead>
</table>
| market opportunity      | IBM, Otis, Bayer, Asia, Kenwai, Synergie | 6            | • IBM perceived that China will become the largest market with fastest growth and surely will look for future investment opportunity (IBM).  
• The establishment of Otis China as a holding company in 1997 further shows their confidence to organise China market as a separate business and to continue looking for opportunity (Otis).  
• Future investment intention is high. Current JV negotiations include a polycarbonate, an agricultural insecticides project, an animal health products and a citric acid joint venture (Bayer).  
• High growth in the Chinese market makes investment intention extremely positive (Asia-Link).  
• They have a very favourable performance and surely they will look for opportunity to invest in China (Kenwai).  
• Mr. So is very confident in his future investment intention in China because of his in-depth understanding of the Chinese market potential (Synergie). |
| increasing involvement  | IBM, Otis, Bayer, Asia-Link             | 4            | • Increase their controlling interest in their newest joint venture in Beijing that indicates the determination in the Chinese market (IBM).  
• The increase of investment from the initial US$ 1.5 million in their first joint venture in Tianjin to US$ 15 million in the joint venture in Guangzhou indicated their total commitment in the Chinese market (Otis).  
• They also signed a letter of intent to form a synthetic rubber joint venture with Gao-Oiao with investment of up to US$ 100 million (Bayer).  
• Flexible practices of the China Unicom in attracting foreign investment provided a good intention to Asia-Link to seek future investment opportunity in China (Asia-Link). |
| market diversification  | Synergie          | 1            | • Diversified investment could enjoy all business opportunity in China (Synergie).                                                                                                                     |

also posed a very interesting concept i.e. a consistent China policy. China is an evolving system in a sense that its policies are responsive to the market changes. Therefore, a consistent policy is needed to penetrate the Chinese market. Synergie also mentioned that cost must be minimised so that reasonable profit can be maintained. For example, minimising the possibility of keeping expatriates in China is a good strategy to achieve this purpose.

5.6.8 Summary on joint venture outcome

The analyses show that successful negotiation does not necessarily give absolutely satisfactory joint venture outcomes. Negotiation of joint venture details with the Chinese partners, of course, can solve
some perceived internal operational difficulties such as manufacturing difficulties, technology
transfer, process applications and capital resources (Keegan 1995). However, the joint venture
outcomes which the author of this thesis proposed are important for a foreign firm to perceive China
as a separate market rather than as a production base, and figure 5.19 suggests that highly satisfied
joint venture outcomes are the result of an enduring learning process. Otis is a typical example of this
enduring process and they are highly satisfied in all joint venture outcomes. The high satisfactory
ratings given to future investment and learning experience suggest that China, as a market with 1.2
billion people does provide incentive to foreign firms to go through this enduring process.

Figure 5.33 Site-ordered Meta-Matrix of Learning Experience satisfaction in China

<table>
<thead>
<tr>
<th>Company</th>
<th>Overall Encouragement Level</th>
<th>Reasons</th>
<th>Impact</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>high</td>
<td>• Cultural elements must be carefully managed (cultural appreciation).</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• A consistent China policy must be adopted to penetrate the Chinese market (consistent policy).</td>
<td></td>
</tr>
<tr>
<td>Otis</td>
<td>high</td>
<td>• Multi-domestic approach is being adapted in the Chinese market and is being well received by Chinese employee (cultural appreciation).</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Patience is important (patience).</td>
<td>+</td>
</tr>
<tr>
<td>Bayer</td>
<td>high</td>
<td>• Doing business in China needs a lot of patience (patience).</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cultural elements must be carefully managed (cultural appreciation).</td>
<td></td>
</tr>
<tr>
<td>Asia Link</td>
<td>high</td>
<td>• Patience is important in the Chinese market (patience).</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Flexibility is an asset when setting up joint ventures in China (flexibility).</td>
<td></td>
</tr>
<tr>
<td>Kenwah</td>
<td>high</td>
<td>• Understanding Chinese culture is important (cultural appreciation).</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Looking for a good partner is important to have a successful joint venture in China (good partner selection).</td>
<td></td>
</tr>
<tr>
<td>Synergie</td>
<td>high</td>
<td>• Patience is important in China (patience).</td>
<td>+</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Cost must be minimised. For example, keeping an expatriate in China is expensive and therefore training up of local personnel is important (cost minimisation).</td>
<td></td>
</tr>
</tbody>
</table>

Figure 5.34 Clustered summary table on Positive Learning Experience Satisfaction reasons

<table>
<thead>
<tr>
<th>Categorisation</th>
<th>case mentioned</th>
<th>no. of cases</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patience</td>
<td>IBM, Otis, Bayer, Asia Link, Kenwah, Synergie</td>
<td>6</td>
<td>• Patience is important in China.</td>
</tr>
<tr>
<td>Cultural appreciation</td>
<td>IBM, Otis, Bayer, Kenwah</td>
<td>4</td>
<td>• Cultural elements must be carefully managed (IBM, Bayer).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Multi-domestic approach is being adapted in the Chinese market and is being well received by Chinese employee (Otis).</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Understanding Chinese culture is important (Kenwah).</td>
</tr>
<tr>
<td>Consistent policy</td>
<td>IBM</td>
<td>1</td>
<td>• A consistent China policy must be adopted to penetrate the Chinese market (IBM).</td>
</tr>
<tr>
<td>Cost minimisation</td>
<td>Synergie</td>
<td>1</td>
<td>• Cost must be minimised. For example, keeping an expatriate in China is expensive and therefore training up of local personnel is important.</td>
</tr>
</tbody>
</table>
The clustered summary tables produced for each joint venture outcomes further suggest that foreign firms had different reasons for these joint venture outcomes. None of these reasons were compelling except three i.e. domestic sourcing (figure 5.28), market opportunity (figure 5.32) and patience (figure 5.34). As such, domestic sourcing was a pre-determined strategy for foreign firms to participate in the Chinese market. Market opportunity provided incentive for these firms to be persistent and patience was a must for these firms to become a player.

5.7 THE DONALDSON CASE

The Donaldson case is used to establish a rival explanation of the Chinese joint venture explanation. Donaldson’s case has a few characteristics that warrant special attention. First, their intention of establishing a joint venture in China was to serve their existing customers with a hope to penetrate this market at the same time. Second, they used their Hong Kong joint venture to negotiate for another joint venture in China. Third, the manager of the Hong Kong joint venture carried out the negotiation of the Chinese joint venture. Forth, Donaldson never met their Chinese partner before the opening of their Chinese joint venture. Finally, the real negotiation began after their assembly plant began its operation. In saying that, they had successfully negotiated a joint venture contract rather than having a successful joint venture negotiation. Both Chinese and foreign partners misunderstood one another, and the joint venture was being pushed to the limit that the foreign partner was talking about a total take over on the venture. These characteristics are totally different from the joint venture negotiation model that the author proposed. Therefore, it can be used to establish a rival explanation to the other cases.

Figure 5.35 is a summary table on foreign firms’ environmental encouragement level including Donaldson. All firms which had successful joint venture negotiation experience had at least moderate rating on the environmental variables in question with unanimous strong encouragement rating on the economic variable whilst Donaldson only obtained a moderate rating. Clearly then, a prosperous economic environment is a pre-requisite to provide a strong incentive and courage to a foreign firm to learn and actively to solve joint venture negotiation problem. Only based on this strong “economic environment” will foreign firms attempt to solve problems that they encounter in the political/legal and technological environments.
Figure 5.35  Summary table on environmental encouragement level of all foreign firms

<table>
<thead>
<tr>
<th>Company</th>
<th>Economic environment</th>
<th>Political/legal environment</th>
<th>Technological environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>IBM</td>
<td>strong</td>
<td>moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Otis</td>
<td>Strong</td>
<td>moderate</td>
<td>Strong</td>
</tr>
<tr>
<td>Bayer</td>
<td>strong</td>
<td>moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Asia Link</td>
<td>strong</td>
<td>moderate</td>
<td>Moderate</td>
</tr>
<tr>
<td>Kenwah</td>
<td>strong</td>
<td>strong</td>
<td>Strong</td>
</tr>
<tr>
<td>Synergie</td>
<td>strong</td>
<td>moderate</td>
<td>Strong</td>
</tr>
<tr>
<td>Donaldson</td>
<td>moderate</td>
<td>moderate</td>
<td>Weak</td>
</tr>
</tbody>
</table>

As shown, Donaldson obtained moderate ratings in the economic and political/legal environment and a weak encouragement rating in the technological environment. The combination of these encouragement ratings inaugurated Donaldson's sceptical attitude toward the Chinese market. Other foreign firms all have a strong encouragement rating on the economic environment which stimulated their willingness to learn. As such, a strong economic encouragement is a pre-requisite for foreign firms to access other variables like the political/legal and technology.

The weak encouragement rating given to Donaldson's technology level also implied that they did not have the intention to transfer their technologies to the Chinese market. In fact, Donaldson's Chinese joint venture is a workshop to assemble air filtration systems for their customers in China rather than manufacturing the air filtration components that are the heart of their technologies. This arrangement can protect their technologies from being released to the Chinese market. Also, this evidence shows that Donaldson did not have the level of commitment on Chinese market penetration like the other foreign firms.

Donaldson never got involved in the actual negotiation with QAC and therefore their negotiation process cannot be directly compared to those of the other successful firms. In addition, Donaldson never intended to establish cultural understanding with its PRC partner which means that they had no intention of processing a problem solving attitude (PSA) to understand their Chinese partner's need.

In summary, the major problem of Donaldson's joint venture negotiation was their lack of understanding in the Chinese market that created a fearful attitude toward the Chinese market. If they had done a careful investigation concerning the Chinese market and found a good partner, they would have ended up with a happy negotiation experience in China.

This section investigated a failure case in Chinese joint venture negotiation. It demonstrated the importance of a foreign firm's own perception toward a market before this firm can fully commit to a market which is independent to the financial ability of a firm. A firm must have total commitment so that they can learn the cultural part and the necessary procedures to penetrate the Chinese market.
Total commitment allows a firm to carefully analyse the potential of the Chinese market. If this total commitment is complete with the understanding of cultural elements and Chinese bureaucratic system together with finding a good partner, Donaldson’s joint venture negotiation in China will become successful.

5.8 THE RESEARCH QUESTIONS AND MAJOR FINDINGS

This section is used to answer the research questions that the author of this thesis proposed in figure 3.7 of chapter 3 and to give major findings of this thesis.

5.8.1 What economic, political/legal and technological factors would influence the joint venture (JV) negotiation process?

This study shows that two economic and one political factor unequivocally initiate foreign firms to negotiate joint venture projects in China. They are 1) the general economic growth, 2) the strategic growth and 3) the provision of political stability by the government in the Chinese market. The general economic growth and political stability of the Chinese economy are the two most important considerations of these foreign firms to negotiate. A survey done by the American Chamber of Commerce in Hong Kong in early 1997 showed that the foreign companies’ investment confidence in China has increased as compared to a year ago. Some foreign companies in the survey indicated that they would consider relocating their regional head quarters to China. This report also indicated that political uncertainty is their major concern. Moreover, the tremendous economic growth within certain cities of China directed their negotiation of joint venture establishment in these cities. For example, Shanghai was mentioned as one of the popular investment locations in China because its economic growth outperformed other parts of China. Therefore it was of strategic importance to participate in Shanghai or else these firms expected their performance in China would fall behind their major competitors (Anonymous author, Hong Kong Economic Times, 12/5/1997, p. A 12).

Competition, no matter if it is limited or intense, was a major driving force but not a compelling factor for foreign firms to negotiate in China. For example, IBM, Otis, Bayer and Asia Link negotiated for joint ventures because they were fighting for market share in the highly competitive Chinese market whereas Synergie entered this market because limited competition opening up a niche market.

Technology contribution was a major but not a compelling factor for firms to negotiate. Foreign firms may enter the Chinese market because of other reasons. For example, Kenwah negotiated for a
joint venture in the Chinese market because of marketing channel development and savings in factoring cost!

This study indicates that there were other positive but less influential factors motivating foreign firms to negotiate in the Chinese market. These factors included: 1) the confidence in the Chinese legal system, 2) the Chinese Government bureaucratic help, 3) preferential tax treatment, 4) the provision of bureaucratic co-operation in the technology area, 5) provision of technology assets such as industrial expert, 6) minimum investment in the technology area, and 7) limited competition in technology. These factors provided benefits to the foreign firms in their specific industries rather than widely applicable to a wide spectrum of industries.

There were some negative, but not compelling factors, hindering these firms to negotiate for joint venture projects in China. They were:

Lack of legal guidance

The legal system in China has been evolving and its speed has been in accordance to the nature of a specific industry. In saying that, laws and regulations would be amended related to a specific industry according to the needs of the market and perceived urgency and consistency to the traditional Chinese values from the eyes of the Chinese Government. For example, the Chinese State Council has recently decided to ban all direct marketing activities and ordered all direct marketing firms to close down by 31th Oct 1998. The Chinese Government perceived that direct marketing was not in accordance with the Chinese ideology because it was not within the Chinese traditional concept of retailing. A Chinese diplomat commented: “To say all of this is illegal calls into the question China’s commitment to consistency,” (O’niel and Miller, South China Morning Post, 23/4/1998, 1).

Bureaucratic red tape

As indicated on figure 2.13 of chapter 2, the establishment of a formal joint venture is bureaucratic in nature. Donaldson did not directly negotiate a joint venture in China because they wanted to avoid the bureaucratic procedures whereas Kenwah and Synergie used their guanxi in China to cut through this bureaucratic red tape. The American Chamber report mentioned above also pinpoints that bureaucratic red tape is a dumpling block in Sino-US joint venture co-operation (Anonymous author, Hong Kong Economic Times, 5/12/1997). Blackman (1997, 38) cited a classic example in bureaucratic red tape: “The manager of a vegetable canning factory in Liaoning province wanted to go into partnership with a U.S. vegetable canning company. He had to convince at least sixteen different constituents, some of them favoured other foreign partners, before he could give a clear answer to the American company".

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Chapter 5- Cross Case Analysis

The Chinese Government appears to understand bureaucracy is a resistance to foreign investment in China. The newly elected Chinese Prime Minister Zhu Rongbi said the central government must complete its staffs cutback in 1998 and he wanted regional governments to finish their restructuring within three years (Kwan 1998). However, the problem of bureaucratic red tapes remains or even declines. A recent survey in bureaucratic red tapes in selected countries indicates that China's position had declined from 11 in 1998 to 13 in 1999 that was one position above the last or the fourteen country Vietnam (Anonymous author, Hong Kong Economic Times, 22/11/99, A9).

Indifferent tax treatment

The Chinese Government provided a lot of incentives to direct foreign investment when it opened its market in the late 1970s. These incentives, however, have gradually disappeared when more foreign companies established their joint ventures that have reduced foreign firms' bargaining power in the Chinese market. Zhou (1997) recognises that China should provide a unified national treatment to domestic and foreign firms to allow equal competition in a socialist market economy and pave their way to join the World Trade Organisation (WTO). If this holds true, preferential treatment such as lower tax will eventually disappear for foreign firms.

Planning chaos

China operates under a centralised planning mechanism that requires a vast amount of effort to carry out this planning function. It is bound to create chaos if planning is not market-driven which is normally the case in China. This provides uncertainties for foreign firms especially those involved in infrastructure projects. Otis is a typically example.

Technology competition

Firms attempt to compete in terms of their advance technologies. Technology competition reduces foreign firms bargaining power in some industries. IBM, Bayer and Asia Link were facing this problem because they are operating in highly competitive environments. In saying that, these firms are market leaders in their field and therefore offering the most advance technologies to their Chinese partners was not a problem. The real problem, however, is that the China market may not render good support in these technologies in the areas of human resources and infrastructure support. Mr. Alastair Britton of General Motor cited a very good example: "the Chinese want the most up to date technology all the time. However, they may not provide very good support! For example, when Jiang Zemin went to the U.S., they ordered the most advance computer controlled motor cars for their use in China. These cars must be run on very clear fuel. But China's fuel is very dirty. These cars soon broke up and they had nobody to repair them!" Therefore, the real issue is for these foreign firms to convince their Chinese partners to adapt the most appropriate technologies in the joint
ventures so that they can use them. For example, Otis has taken 13 years to transfer the most up to date technology to their Guangzhou joint venture.

Technology bureaucracy

Lengthy bureaucratic procedures hinder the establishment of the joint ventures. The Chinese also want to understand the nature of that technology thoroughly before they commit to this technology. Hence, the more advanced that technology is, the more time the Chinese need to understand that technology. Blackman (1997) reported a case in the mining industry. The Chinese investigated that technology from every angle and therefore the negotiation process is delay.

In summary, factors which have compelling influence on foreign firms to initiate joint venture negotiation in China are 1) the general economic growth, 2) the strategic growth and 3) the provision of political stability by the Chinese Government. Other major, but not compelling, factors include: 1) competition and 2) technology contribution.

Negative factors which hinder foreign firms to negotiate for joint venture projects in China include: 1) legal of legal guidance 2) bureaucratic red tape 3) indifferent tax treatment 4) planning chaos 5) technology competition and 6) technology bureaucracy.

5.8.2 What pattern of influence did the foreign firms exert on their negotiators?

General pattern

The corporate or regional offices within individual group of firms under study exerted very similar patterns of influences on four variables, i.e. “dividend arrangement”, “life span of the contract”, “plant specifications”, and “board representation”. The strategic business units (SBUs) received weak influence from their corporate offices because the negotiators were, to a large extent, granted power to make decisions. The regional controlled units i.e. Otis and Asia Link experienced strong influence from their corporate offices because their negotiators were not granted independent decision-making power. The ‘entrepreneurial’ group received weak to nil influence because the chief negotiators of the firms within this group, i.e. Kenwah and Synergie were the main decision-makers of their companies and they could make decisions within too much interference from their offices.

Investment amount
The corporate or regional offices of the strategic business units (SBUs) i.e. IBM and Bayer were found to exert different levels of influence on the investment amount. IBM’s corporate/regional head office exerted weak influence on the Chinese SBU if the investment amount on a particular joint venture was less than 150% of the pre-approved limit because the performance of their Chinese joint ventures have been satisfactory. Only if the potential investment amount is expected to exceed the 150% limit will the IBM corporate and regional head office exert strong influence on their negotiators because this investment will put pressure on the short term profit and cash flow performance. Bayer’s head office, on the contrary, exert strong influence on their negotiators because of cash flow pressure and negative profit implications coming from the present and future joint ventures in China.

The influence exerted by the corporate and regional head offices of the regional controlled units (RCUs) i.e. Otis and Asia Link on the investment amount is strong because these firms controlled their negotiations directly from their regional offices. Their negotiators had to consult their regional head offices on making all decisions including the investment.

The influence exerted by the corporate offices of the entrepreneurial firms i.e. Kenwah and Synergie was moderate (Kenwah) to weak (Synergie) depending on the management structure of the two firms. In saying that, the director of Kenwah Mr. Simon Li was one of the family members in this family business and therefore he needed to obtain consensus especially on the investment amount because the joint venture would put cash flow pressure on his family total investment in China. Mr. Daniel So was the head of his family business and therefore he had the sole responsibility to make decision. In the decision of investment amount, he needed to understand the cash flow situation of his company, and therefore the influence coming from his company was weak.

"Expatriate Expense" and "labor allowance"

All three groups of firms did not exert influence on the variables of “expatriate benefits” and “labor allowance” because the former is determined by local conditions and the latter is regulated by the Chinese Government.

"Degree of technology transfer", “Transfer of logo” and “Transfer of intellectual property right and licensing”

International firms, whenever possible, exerted strong influences on the issues of “degree of technology transfer”, “transfer of company logo” and “transfer of intellectual property right and licensing” in negotiating joint ventures with the Chinese companies.

As mentioned in section 5.3, “transfer of technology” from the West to China has not been successful because it merely became a “tool” or a “means” of importing foreign products and equipment from
the West to China. In exerting strong influence on the negotiation process, the corporate and regional offices of the firms in this study actually wanted to use "technology transfer" as a "tool" or "means" to generate future technological development in the Chinese market rather than an exercise of exporting products and equipment to China;

As mentioned in section 5.3, company logo is one of a company’s intangible assets. Therefore, the corporate and regional offices of the foreign firms in this study needed to exert strong influence on the issue of "transfer of company logo" to protect stakeholders' confidence in their companies and their products.

As mentioned in section 5.3, China is one of the worst violators of intellectual right and licensing. The corporate and regional offices of the firms in this study needed to exert strong influence on the issue of "transfer of intellectual property right and licensing" in their joint venture negotiation to ensure proper management of investment in this area.

5.8.3 How did the joint venture (JV) negotiation proceed from one stage to the next?

The foreign joint venture negotiation teams monitored the whole negotiation process in succinct stages. When the foreign firms’ negotiation practices were matched with the process proposed by the author in figure 3.6, the pre-negotiation and negotiation stages had strong match with the model presented. In other words, the model described exactly what they would do in the initial stages of their joint venture negotiation assignments. The only exception was found in Kenwah’s case. Mr. Simon Li of Kenwah negotiated with his "old friend", and therefore identification of the bureaucratic structure and his strategies were not necessary.

The foreign firms’ practices at the post-negotiation and contract signing stage show a moderate match with figure 3.6 in general. A major mismatch was found in the "monitoring of the Chinese economic environment". Asia Link was the only firm that monitored the Chinese economic environment because their regulatory environment in the telecommunication industry had been extremely unstable. After individual case analyses, the author of this thesis is confident in saying that their negligence in monitoring the Chinese economic environment was because foreign firms have been enjoying preferential treatment such as taxation within the legal framework. They, therefore, treated the change in economic conditions as their partners' problems. However, there is a possibility that the Chinese Government will implement a national taxation treatment on both domestic and foreign firms to prepare China to enter the World Trade Organisation (WTO). The national tax treatment will encourage both foreign firms and domestic firms to equally participate in the Chinese and international market so as to improve world trade (Zhou 1997). If China is implementing an equal
national treatment on domestic and foreign firms; the foreign firms will be forced to monitor the Chinese economic conditions because the conditions will affect their positions in China.

There was only an overall weak match at the post contract signing stage. Again, if the implementation of equal national treatment applies, the weak match will be at least upgraded to a moderate match for all firms because the foreign firms become anxious to observe the development in the Chinese market.

Generally speaking, foreign firms proceeded from one stage to another stage very carefully. They needed to clarify various things at different stages. For example, they needed to clarify the common objectives and goals of the joint venture at the pre-negotiation stage before they went into formal negotiation. At the negotiation stage, the foreign firms had to ensure mutual understanding was obtained through the strategies of collaborating and compromising before they moved to the post-negotiation stage. However, the progress from one stage to the next was not a one-way traffic. On some occasions, they needed to re-negotiate terms and conditions, that calls for close observation of their objectives, goals and guideline. This happened most likely at the post negotiation, contract signing stage. During the re-negotiation, cultural conflict must be avoided. In summary, they monitored four areas very cautiously: 1) the mutual goals of both parties 2) their company objectives in the joint ventures, 3) the respect of the cultural elements and 4) the monitoring of the Chinese parties' strategies. Case number 7 demonstrated that if strategies at various stages were not properly managed, the negotiation outcomes would be disastrous. The objective of going through the proposed negotiation stages is to establish future direction for the joint venture rather than signing the contract.

5.8.4 How did the foreign negotiators formulate strategies and how did they respond to the PRC counterparts' strategies?

As suggested in section 5.8.3 above, one of the foreign firm generic strategies was to in match their internal resources with their PRC partners' needs. This matching process was especially appealing at the pre-negotiation stage. Foreign firms endeavoured to establish organisation objectives and common financial and marketing goals between them and their PRC counterparts through a soft approach that involves identification of objectives and goals during drinking and eating in private sessions. In order to refine their strategies, they were also anxious to find out the PRC negotiators' private goals. In saying that, they would satisfy these private goals within their approval limits with no contradiction to their business ethics. There was some evidence, however, that Kenwah went over the legal limit and offered some performance incentive to their Chinese partners i.e. 5% bonus on sales.
The foreign companies mainly adopted the co-operative and collaborative strategies that were reactive in nature when negotiating with their PRC counterparts. In other words, foreign firms adjusted their strategies according to their perceptions on their Chinese counterparts’ strategies. This reactive mode could show their concerns for the Chinese parties’ problems as well as favouring the Chinese parties. The way they responded was to compare the Chinese requests to the companies’ objectives and goals. If the requests were reasonable, they would consider these by giving them response. In the meantime, the foreign parties would request concessions on some other issues. Therefore, the main idea was to balance both parties’ benefits in the joint ventures or produced a win/win situation that the author mentioned in section 2.3.3.1.2 of chapter 2.

5.8.5 How important were the cultural elements e.g. “guanxi”, “face”, “reciprocity”, “renqing” and “trust” to the joint venture (JV) negotiation?

Four elements i.e. guanxi, face, reciprocity and trust were found to have strong influence on the joint venture negotiation process of all foreign firms. All foreign firms noted that these four elements played important role in their joint venture negotiation with the Chinese. The element of renqing, was found to have weak to moderate influence on the Strategic Business Group and the regional controlled group. It exerted strong influence on the entrepreneurial group. The within-case/site analyses in chapter 4 showed that foreign chief negotiators such as Mr. Li of Kenwah and Mr. So of Synergie could understand this concept because they had similar cultural background as their Chinese counterparts.

In regard to individual cultural elements, foreign firms’ negotiators had consensus on how to establish guanxi and manipulate the face elements. They usually established guanxi with their PRC partners and customers; initiated intra-company visits with their Chinese partners; and emphasised long term relationship with their Chinese partners. John Platt, president of AgriGlobal agreed: “Nothing ever happens in China without a relationship. The country has a long history of being pillaged by other countries. They have a high degree of innate distrust and want to know who they are dealing with” (Marketing News, 21/10/1996, p.21). As far as the face elements are concerned, the foreign negotiators would present gifts and avoided face-to-face conflict with their Chinese partners.

The author of this thesis, after analysis, recognised that guanxi, face, reciprocity and trust are important elements in Chinese joint venture negotiation exercise and the element of renqing may not be applicable to foreign negotiators who have different cultural background. However, further research should be done in this area to confirm this result.
5.8.6 How did the problem solving attitude (PSA) i.e. information gathering and need fulfilment help negotiators to negotiate?

Evidence indicated that the problem solving attitude (PSA) helped foreign negotiators confirm their decision of negotiating with the right partners. This PSA motivated the foreign negotiators to carry out two activities i.e. information collection and information exchange with their PRC counterparts.

All foreign negotiators used three tactics to collect information i.e. field observation, formal information search and formal analyses. Companies like Kenwha and Synergie also used informal information search to supplement their formal activities. The information collection activities were carried out during the whole negotiation process. However, different companies may conduct similar activities at different stages. For example, Asia Link carried out the due diligence assignment on the Chinese partner at the pre-negotiation stage and yet Bayer conducted the same activity at the post negotiation stage. These activities help the foreign negotiators identify the market potential, marketing and financial issues of their Chinese partners, their technology requirements and whether they were negotiating with the most appropriate partners.

The information exchange activities included company information exchange, expectation exchange and matching the foreign firm requirements with those of the Chinese firms. In other words, information collection and exchange helped both parties obtain mutual understanding and generate tight co-operation between them to achieve common goals.

5.8.7 How satisfactory is the joint venture outcome?

This study showed that there is no direct relationship between a successful joint venture negotiation of two parties and the joint venture outcomes. That means, a successful negotiation between the foreign and Chinese parties does not automatically produce successful joint venture outcomes.

As shown in figure 5.19, only one firm, Otis, was highly satisfied with all outcome variables that were not unexpected. When compared Otis' history with other firms in the database, Otis was the earliest entrant to the Chinese market. Otis negotiators' accumulative experience enabled them to perceive potential operational difficulties in any potential joint venture, and therefore they could raise issues concerning these difficulties during joint venture negotiation with their PRC partners. In addition, the oligopolistic nature in the elevator and lift market enabled Otis to grab more bargaining power when they negotiated with their PRC partners. Otis could negotiate for better terms and conditions in their joint ventures. Their accumulative experience gave the satisfaction in all outcome variables. These
satisfactions also motivated Otis to establish a holding company to be responsible for the Chinese market.

The responses from all informants on the satisfaction level for other outcomes were mixed. Convergent views were found on two variables, the investment future intention and their learning experience in China. In other words, foreign firms were extremely positive on their future prospect in the Chinese market. This, again, is consistent with the American Chamber of Commerce's report on foreign investors' confidence that the author mentioned in section 5.8.1. When the evidence of all outcome variables concerning all firms within the database were put on clustered tables, three factors converged 1) the firms' local sourcing decision 2) their perceptions on the future market potential and 3) patience is important in the Chinese market.

These converging factors show that these foreign firms are committed to the Chinese market. Domestic sourcing can give reassurance to the Chinese Government that they want to become 'local' rather than foreign firms that import materials from overseas markets. The positive perception on the Chinese market potential motivated foreign firms to take a long term prospective with patience in this market.

5.9 THE MAIN RESEARCH PROBLEM AND THE SINO-FOREIGN JOINT VENTURE NEGOTIATION MODEL

5.9.1 The main research problem

Section 2.5.4 of chapter 2 proposed a preliminary Sino-foreign joint venture negotiation model. Chapter 3 determined the case study research method was the most appropriate methodology to conduct this research. This preliminary model was validated by five in-depth interviews with five foreign firm top executives and the revised Sino-foreign joint venture negotiation model was contained in figure 3.5 and its associated strategies were consolidated in figure 3.6 of chapter 3. Chapter 4 was an important chapter that contained the within-case/site analysis to establish independent conclusions to justify replication of the sino-foreign joint venture negotiation model on subsequent cases. The overall conclusion on the Sino-foreign joint venture negotiation model in section 4.9 of chapter 4 justifies the cross-case/site analyses in this chapter. After the author of this thesis has conducted the cross-case analyses in sections 5.2 to 5.7 and answered research questions in figure 3.7 in section 5.8, the author of this thesis now has compelling evidence to answer the research problem presented in section 1.2 of chapter 1.
Research problem:
How do the foreign and Chinese parties who come from different cultural background negotiate for a successful settlement in a joint venture under the organisational constraints of both parties and the Chinese environmental context?

The study shows that Sino-foreign joint venture negotiation is not purely concerned with the problems of two organisations i.e. the foreign and the Chinese parties. In fact, the foreign and Chinese organisations must establish their joint venture operations in accordance with the Chinese economic, political/legal and technological contexts. Only with these contexts in place can they obtain support from the Chinese Government and their ministries. For example, Bayer’s joint ventures were established in accordance with the forecasting growth within the chemical industry. IBM, Otis, Asia Link and Synergie contributed their technologies to the Chinese market. IBM and Otis also give human resource training to Chinese domestic technicians. Kenwah improved the employment situations in the locality of its joint venture establishment.

The extent of control from the corporate head office on a business unit depends upon the perception of that corporate office toward the Chinese market. If that corporation perceives that China is only sub-market rather a unique market, that corporation will not establish a strategic business unit (SBU) for the Chinese market. Otis and Asia Link belong to this category, and therefore they control their activities in China via their regional office from Singapore and Hong Kong respectively. As shown, the regional offices extended extensive influences on all their decision making.

If a corporation recognises that China is a very distinct market and deserves special attention, they will set up an SBU to manager the Chinese market. IBM and Bayer belong to this category and established separate companies i.e. IBM China/Hong Kong Ltd and Bayer China Ltd to participate in the Chinese market. These corporations extended different levels of influences on the decision making process of their subsidiaries. IBM and Bayer head offices are mainly concerned with the allocation of important resources such as technology transfer and allowed their SBUs to make decisions on the rest of the decisions.

The entrepreneurial group i.e. Kenwah and Synergie, mainly Hong Kong based, have almost total autonomy which speeded up their decision making in the Chinese market. In fact, this simple decision making pattern is effective in penetrating this important market. Leung and Yeung (1995) confirmed that about 62 % of direct foreign investment (DFI) in the Chinese market in 1992 were from Hong Kong.
This study indicates that foreign firms can take a very serious to a very careless attitude when they negotiate for joint venture projects in the Chinese market. Firms such as IBM, Otis, Bayer and Asia Link emphasised formal market research when they negotiated for new joint ventures whereas Hong Kong based firms such as Kenwah and Synergie emphasised informal market surveys. The Donaldson case shows that firms could undertake no market research when they approached the Chinese market. The evidence shows that again the management perception of and their commitment to the Chinese market is vital when approaching a new market.

In the negotiation process, firms that are committed to the Chinese market will thoroughly understand the common objectives and goals of their own and the PRC partners through formal and informal contacts. In addition to the common objectives and goals, they will try to accomplish the private goals of their Chinese partners within their ethical limits. For example, these limits can be ranging from sending the Chinese negotiators’ children for overseas studies (Bayer) to giving bonus to their Chinese partner (Kenwah).

The Chinese bureaucratic procedures in establishing joint venture in China as shown in figure 2.13 in chapter 2 also indicate that foreign firms must follow a stage wise negotiation model which the author proposed on figure 3.5 and 3.6 in chapter 3. By following this model, foreign firms employ different strategies at different stage in their negotiation assignments. These strategies, however, emphasise achieving mutual understanding and mutual adaptation rather confrontation. On top of these collaborative and co-operative strategies, foreign firms must emphasise their unique selling propositions (USP) of their joint venture projects.

The Sino-foreign joint venture negotiation needed to be supported by 1) cultural understanding by the foreign negotiators and 2) problem solving attitude (PSA) of both parties. Cultural elements such as guanxi, face, reciprocity and trust were proved to be vitally important and they must be carefully managed throughout the process. The element of renqing, because of its nature i.e. a company must pay a resource in advance, is not fully awarded by foreign firms. This element, however, is vital in China. As Chinese saying suggest: “At some point in time, we may see each other again!” Nevertheless, future research must be done in this area to provide solid justification for the use of this element.

The problem solving attitude (PSA) is mainly concerned with acquisition of information and utilisation of the information to solve partner’s problem. The research shows that this attitude is important for the whole negotiation process. The PSA together with the understanding in culture forms the core negotiation pillar in the whole joint venture negotiation process.

This research also shows that successful negotiation does not automatically mean a successful business result. For example, all firms in this study have successful negotiations but only one firm i.e.
Otis satisfied all evaluative criteria as shown in figure 5.19. The analyses in section 5.8.6 indicated that long-term commitment is important besides the foreign negotiators’ familiarity with the Sino-foreign joint venture negotiation model that the author of this thesis proposed.

5.9.2 The modified Sino-foreign joint venture negotiation model and its contexts

The author of this thesis now has complete confidence to modify the Sino-foreign joint venture negotiation model in figure 3.5 and its associated strategies in figure 3.6 in chapter 3.

The modified model and its associated strategies are presented in figures 5.36 and 5.37 below.

**Figure 5.36** A modified sino-foreign joint venture negotiation model
A modified sino-foreign joint venture negotiation model showing a system approach for foreign firm to enter the Chinese market.

As shown, the Sino-foreign joint venture negotiation model remains intact i.e. all components proposed in figure 5.36 have been validated through within-case/site and cross-case/site analyses in chapter 4 and 5 accordingly.
The Sino-foreign joint venture negotiation model, its context and its sources of literature are described in this section. The implications and recommendations emerging from the within-case/site and cross-case/site analyses are discussed in the chapter 6, the conclusion and recommendation chapter of the whole thesis.

### 5.9.2.1 International context

In a firm’s internationalisation process, it evaluates the international environment according to the Opportunities/Market/Financial approach (OMF), Transaction Cost Approach (TCA) and the Eclectic Approach. These approaches were fully explained in section 2.3.1. Because of its enormous market potential, China is identified as a market to enter.

### 5.9.2.2 Chinese strategic context

As explained in section 2.4.1, joint venture is the most promising entry mode available to a firm to penetrate the Chinese market because of joint venture’s potential contribution to the Chinese “four modernisation programs” in terms of technology, capital, and management expertise. The identification of a joint venture partner is strongly guided by the Chinese strategic environment. For example, the Chinese Government may nominate a specific Chinese firm to negotiate for a joint venture project with this foreign firm because the joint venture project falls in a regulated area of the “four modernisation programs” i.e. agriculture industry.

As mentioned in section 2.5.4 of chapter 2, Hunger and Wheelen’s (1993) four strategic environmental variables i.e. economic, political/legal, cultural, and technological variables were reduced to three strategic environmental variables, i.e. economic, political/legal, and technological environments. According to System Theory (Checkland 1981 and Buttery 1988), the cultural variable is too important that it should work as a component within the joint venture negotiation system. The view of culture as an integral of a system is consistent with the views of Wagner (1990), Elashmaswi and Harris (1993) and Usunier (1993) as explained in section 2.5.4 in chapter 2. Also, the within case/site and the cross-case/site analyses proved that the Chinese cultural elements are extremely important throughout the whole Sino-foreign joint venture negotiation process. Therefore, the Chinese relationship culture works as the first negotiating pillar components to support the Sino-foreign joint venture negotiation process that will be explained in later part of this section.

### 5.9.2.3 Organisational context

 Whilst the whole Sino-foreign joint venture negotiation process is conducted within the Chinese strategic context as explained in section 5.9.2.2 above, the Chinese and foreign negotiators are
influenced by the organisation context to negotiate according to their company objectives. The organisational objectives of the foreign and Chinese firms are different. As explained in section 2.3.2 and 2.4.2 of chapter 2, the organisation context of foreign and Chinese firms is different. A foreign firm’s organisational objective to enter the Chinese market is strategic. Its entry to the Chinese market is due to the Chinese market potential, profit potential and competitors’ presence. The Chinese firm’s objectives are to import technology, management expertise and procurement of capital as stipulated by the “four modernisation’s program” and the State plan. These differences in organisational context pose a challenge to the foreign and Chinese firms to resolve the differences in company objectives. The handling of negotiations under different organisational contexts requires negotiators of both sides to adapt a problem-solving attitude (PSA) to improve satisfaction in the negotiation outcomes that are consolidated on the joint venture contract. PSA, in this joint problem-solving environment, acts as a second negotiation pillar component that will be explained in later section.

5.9.2.4 Sino-foreign joint venture negotiation process and strategies

As explained in the cross-case/site analysis section 5.4 above, the foreign and the Chinese firms negotiate for a joint venture according to the five-stage negotiation process that is defined by Chinese legal procedures for joint venture establishment. These five stages are 1) the pre-negotiation stage, 2) the negotiation stage, 3) the post-negotiation stage, 4) the contract-signing stage, and 5) the post-contract signing stage. The strategies that emerged at these stages are shown in figure 5.37. The sources of these strategies emanate from different parts of the literature review that are integrative in nature. For example, the strategy of “identification of common marketing and financial goals” by the Western negotiators at the pre-negotiation stage comes from sections 2.3.1.1 “OMF” approach, 2.3.2.3 “international JV strategic planning” and 2.4.1 “Chinese environmental context”. The integrative conceptualisation of these three areas gives Western firm a clear picture of the requirement of the Chinese counterparts. Also, the Western strategies of “collaborating”, “compromising” and “Accommodating” originated from sections 2.3.3.1.3 “the IMD Business negotiation approach”, and 2.4.3.3 “Chinese negotiating strategies".
The modified strategies used by party A (Western) are shown from stage 1A to 5A.

The strategies proposed for the Chinese party in sino-foreign joint venture negotiation are rendered for future research.
Amendment on negotiating strategies based on the cross-case analyses

As shown in figure 5.37, the strategies are almost exactly the same as the author of this thesis proposed in figure 3.6 in chapter 3 with a limited amendment as described in this section.

As suggested by the cross-case/site analyses in section 5.4.2 and figure 5.10, all firms mentioned that they needed to “clarify important issues” with their Chinese partners because the Chinese did not intent to give direct answers to their foreign counterparts. Since this strategy was considered important by all firms in this study, the author of this thesis would like to add this strategy at the negotiation stage to reflect its importance in the Sino-foreign joint venture negotiation process.

As suggested by the cross-case/site analyses in section 5.4.3 and figure 5.10, all firms except Asia Link did not closely monitor the Chinese economic and political environment at the post negotiation stage. However, the analyses in that section showed that the firms just played deaf in order to avoid frequent changes to agreed terms from the Chinese side as mentioned in section 2.4.3.2.3 of chapter 2 which is an effective strategy according to Wilhelm, Jr. (1994). Therefore, the author of this thesis would like to maintain the element “closely monitor Chinese economic and political environment” in figure 5.37. The correct interpretation of this strategy is:

- Foreign negotiators should closely monitor the changes in Chinese economic and political environment at the post negotiation stage. When the Chinese negotiators request changes, the foreign negotiators should only agree with these changes if the changes are within the company’s objectives with the consideration that the joint venture is expected to operate efficiently with the change in the Chinese economic and political environment. This strategy is flexible and leaves the long-term relationship between the foreign and the Chinese partner intact.

As suggested by the cross-case/site analyses in section 5.4.3 and figure 5.10, all firms did not closely monitor the Chinese economic and political environment at the contract-signing stage because all firms wanted to finalise the contract without delay on the joint venture establishment. Therefore, this strategy is deleted from figure 5.37.

As suggested by the cross-case/site analyses in section 5.4.4 and figure 5.10, all firms did not attempt the strategies of “higher level negotiation” and “closely monitor PRC economic development and reflected on the contract” at the post contract-signing stage. The negligence of the former is due to the foreign negotiators’ action to “save face” of the Chinese negotiators. The Chinese “face” concept was fully described in section 2.4.4.2.3 of chapter 2. The negligence of the latter is because all firms would like to implement the contract without delay. Therefore, these two strategies have been deleted in figure 5.37. However, all foreign firms except Kenwah and Synergie employed a strategy of “communication with PRC Government department to obtain implementation licenses”. Kenwah did
not communicate with the PRC Government departments to obtain licenses because its partner had good guanxi with local authorities and therefore the local partner finalised all the legal procedures without Kenwah’s presence. Again, Synergie did not do the same because one of the Chinese partners, the Shenzhen City Government, completed the approval process. However, Kenwah and Synergie were two exceptions because they have direct help from their Chinese partners. In other words, other foreign firms need to communicate with the PRC Government departments to obtain implementation licenses. In this sense, the strategy “communicate with PRC Government department to obtain implementation license” should be included in figure 5.37 at the post-contract signing. In summary, the strategies of “higher level negotiation” and “closely monitor PRC economic development and reflect on the contract” were deleted and the strategy of “communicate with PRC Government departments to obtain implementation licenses” was included in figure 5.37.

5.9.2.5 Joint venture negotiation pillar

As mentioned in sections 5.9.2.2 and 5.9.2.3, the joint venture negotiation pillar consists of two components: 1) the relationship culture (guanxi, face, reciprocity, renqing, and trust); and 2) the psychological asset (problem solving attitude, PSA). According to the cross-case/site analyses in section 5.5.2, the two components of the problem solving attitude (PSA) 1) information collection, and 2) information exchange had exerted strong influence on negotiators of both sides. Therefore, the PSA component remains unchanged from the model proposed in figure 3.5 in chapter 3. However, there are some changes in the relationship culture component and the explanation of the changes is detailed below.

Amendment of Chinese cultural element based on cross-case/site analyses

As discussed in the cross-case/site analysis section 5.5.1 above, the elements of guanxi, face, reciprocity and trust strongly influenced the whole negotiation process. Therefore, these four elements remain in the Sino-foreign joint venture negotiation model in figure 5.36. According to the analysis in this section, the element of renqing had strong influence on the entrepreneurial group of firms. This group contained two firms, i.e. Kenwah and Synergie. Renqing only had weak to moderate influence on the other four foreign firms i.e. IBM, Otis, Bayer and Asia Link. As explained in section 5.5.1, renqing is referred to a resource that an individual presents to another person as a gift in the course of social exchange that is expected to be repaid by that person at a later stage. The four foreign firms, i.e. IBM, Otis, Bayer and Asia Link are all listed companies so that they could not extensively practice the renqing concept in China because listed companies cannot give out a resource in advance without a valid reason. However, renqing was one of the cultural specific reasons that Kenwah and Synergie achieved successful negotiation. For example, Kenwah obtained joint venture approval in 80 days and Synergie obtained help from the Shenzhen City Government. Therefore, renqing is an effective cultural tool in Sino-foreign joint venture negotiation. In this sense, the cultural element renqing should be maintained in figure 5.37. In other word, the author of this thesis
advises foreign firms should practice the renqing concept within their legal limits. For example, foreign firms may make some donations to city libraries or sponsorship to certain welfare organisation in China, which do not have direct business relationship with them. This certainly can establish good guanxi with the city government because these firms give out some resources in advance. The city government will appreciate these actions and reciprocate by helping foreign firms with future business opportunities. Also, these actions are within the legal limits of foreign firms and conform to societal marketing concept proposed by Kotler (1994).

In summary, the two components of the joint venture negotiation pillar 1) the PSA, and 2) the Chinese relationship culture are to be maintained on the Sino-foreign joint venture negotiation model proposed on figure 5.36.

5.9.2.6 Joint venture outcome

The cross-case/site analyses in section 5.6 revealed that there is no direct relationship between Sino-foreign joint venture negotiation and the joint venture outcome variables except two, “future investment” and “learning experience”. In other words, all firms in this study perceived that their present business experience is valuable for their formulation of future investment strategies in China. Lack of direct relationship in the remaining five outcome variables i.e. “profit”, “market penetration”, “management experience”, “product sourcing”, “creditability and reputation” between Sino-foreign joint venture negotiation does not simply mean that these five outcome variables can be cancelled from the Sino-foreign joint venture negotiation model in figure 5.36. It simply means that the outcome of these five variables is independent from the Sino-foreign joint venture negotiation. However, the “less than highly satisfactory” results of these variables as shown in figure 5.19 provide constant flow of knowledge and management experience to foreign negotiators so as to improve better operating conditions concerning these variables in their subsequent joint venture negotiations in China. This constant flow of knowledge and management experience actually acts as a feedback loop to foreign negotiators for improvement of the future Sino-foreign joint venture operating conditions in China. As such, the seven evaluative criteria are for the evaluation of the joint venture operating performance rather than acting as the evaluative criteria for the validity of the Sino-foreign joint venture negotiation model. However, these seven performance indicators are also inputs of the future negotiating planning. This argument is consistent with the System Theory proposed by Checkland (1981) and Buttery (1988).

According to the above argument, the seven criteria of joint venture outcome evaluation should be maintained on the Sino-foreign joint venture negotiation because they allow accumulation of knowledge and management so as to improve a foreign firm future sino-foreign negotiation.
5.10 CHAPTER CONCLUSION

The within-case/site analyses of the six companies (literal replications) and the theoretical replication (Donaldson) in chapter 4 essentially confirmed the validity of the Sino-foreign joint venture negotiation model proposed in figure 3.5 and 3.6 in chapter 3. The extent of generality of the six cases (literal replications) was given in sections 5.2 to 5.6. Answers to the research questions listed in figure 3.7 in chapter 3 were given in section 5.8. Based on the extent of the generality and the provision of answers to the research questions, the author of this thesis modified the Sino-foreign joint venture negotiation model and presented the revised model and its associated strategies in section 5.9.2 figures 5.36 and 5.37 accordingly.

The Donaldson case in section 5.7 also demonstrated that the importance for foreign firm to use this model to negotiate for Sino-foreign joint venture in China. Donaldson’s major problem was their lack of understanding in the Chinese market that created a fearful attitude toward the Chinese market. If they have done a careful investigation concerning the Chinese market and found a good partner, they would have ended up with a happy negotiation experience in China. Also, Donaldson requires total commitment to learn the cultural part and the necessary procedures to penetrate the Chinese market that allows it to carefully analyse the potential of the Chinese market.

In fact, the main theme of this Sino-foreign joint venture negotiation model is to advocate the importance of establishing a long-term relationship between the foreign and Chinese firms through a systematic approach to Sino-foreign joint venture negotiation rather than purely aiming at finalising a joint venture contract. As the Donaldson case indicated, aiming at signing a joint venture contract without a systematic approach to Sino-foreign joint venture negotiation is to expose itself to negotiation failure because the joint venture was not established on a long-term relationship basis.

After the author of this thesis has summarised the contents of this chapter, the validity and major findings related to the Sino-foreign joint venture model will be presented. The implication of strategies from these findings will be discussed in the final chapter (chapter 6) of this thesis.

Environmental contexts

All six firms had unanimous agreement that Chinese “general economic growth” is a compelling factor to start sino-foreign negotiation. This finding is consistent with a report published by the Lausanne International Management Development Association in 1996 on 2,500 members that recognises China has the highest “investment attractiveness” (Anonymous author, Hong Kong Economic Times 18/3/96). Also, foreign firms prefer negotiating joint ventures in some cities that are strategically important in term of superb economic growth and good government support in infrastructure facilities. “Competition” is a strong but not absolute condition to initiate negotiation because firm may enter the Chinese market due to availability of marketing channels and saving of manufacturing cost (Kenwah).
The “stable political environment” is a compelling factor (6 firms) for foreign firms to negotiate joint venture projects in China. Other positive factors, i.e. “legal confidence”, bureaucratic help”, “preferential tax treatment” are important but not compelling factors (less than 6 firms) to support their influence foreign firms’ joint venture negotiation in China. The Chinese political-administrative legal system has some negative factors to hinder foreign firms negotiating joint venture projects in China. However, these factors i.e. ‘lack of legal guidance’, ‘bureaucratic red tape’, ‘indifferent tax treatment’, and ‘planning chaos’ were not unanimously agreed by the six firms under study. Details can be found in section 5.2.2 and again in section 5.8.1.

“Technology leadership” is an important but not absolute strategy for foreign firms to negotiate joint ventures in China. Foreign firms also approach the Chinese market with other objectives. Other positive strategies include 1) co-operating with bureaucratic departments; 2) building human assets in technology; and 3) minimising investment in technology to save cost. There were two major factors that have negative influence on foreign firms’ joint venture negotiation in China, i.e. “technology competition” and “technology bureaucracy”. Full explanation can be found in section 5.2.3 and again in section 5.8.1.

Extent of influence

The author of this thesis found that the strategic business unit (SBU), regional controlled unit (RCU) and the entrepreneurial groups of firms received influences from their head offices in very similar patterns on four variables, i.e. “dividend arrangement”, “life span of the contract”, “plant specifications”, and “board representation”. The ‘entrepreneurial’ group received weak to nil influence; the RCU group experienced strong influence and the influence experienced by SBU fell between the two groups. In this aspect, a RCU firm is at a disadvantage when it competes for a joint venture project in China with an SBU firm because this RCU firm has limited flexibility in negotiating that project. All the above three groups of firms did not exert influence on the variables of “expatriate benefits” and “labour allowance” because the former is determined by local conditions and the latter is regulated by the Chinese Government. Foreign firms, whenever possible, exerted strong control on “degree of technology transfer”, “transfer of company logo” and “transfer of intellectual property right and licensing” when they negotiate joint ventures in China. Full explanation can be found in section 5.3 and again in section 5.8.2.

Negotiation process and strategies

Whenever a foreign firm is negotiating joint venture projects with State-Owned Enterprises, the foreign firm needs to identify the PRC firm’s bureaucratic structure as shown in figure 5.37 because the PRC bureaucratic structure affects the negotiation of the two parties. However, whenever a foreign firm is bargaining with a private firm, the identification of PRC bureaucratic structure may be elapsed because of the simpler reporting structure within that private Chinese firm!
The strategies and actions taking by the foreign firms at the negotiation stage were identical to those contained in figure 5.37. The only exception was found in the case of Kenwah. Mr. Li did not have to perceive his Chinese partner’s strategies because they were old friends and knew each other’s requirements at the start of the negotiation. There was one strategy ‘clarifying important issues’ consistently mentioned by the informants of the foreign firms because they had to clarify their Chinese parties’ commitment. As a result, this strategy is added in figure 5.37.

The strategies and actions taking by the foreign firms at the post-negotiation stage are moderately matched with the same proposed in figure 5.37. All foreign firms except Asia Link did not endorse the strategy “closely monitor Chinese economic and political environment” because Asia Link had to take a more active role in adjusting their own strategies in the Chinese telecommunication. However, this strategy should be included in figure 5.9.2.4 as explained in section 5.9.2.4 because when the Chinese negotiators request for change in the joint venture, the foreign negotiators can adjust their response according to their perceptions of the Chinese economic and political environment.

As explained in section 5.9.2.4, all firms did not “closely monitor the Chinese economic and political environment” at the contract sign stage because they wanted to finalise the contract without delay on the joint venture establishment. Therefore, this strategy is deleted from figure 5.37.

As explained in section 5.9.2.4, all firms did not attempt the strategies of “higher level negotiation” and “closely monitor PRC economic development and reflected on the contract” at the post-contract signing stage. Foreign negotiators’ higher level negotiation with the Chinese negotiators’ superior contradicts with the Chinese concept of “face” which was fully explained in 2.4.4.2.3 in chapter 2. Also, all firms did not “closely monitor the Chinese economic development and reflect the change” on the joint venture contract because they wanted to implement the contract without delay. Therefore, these two strategies have been deleted in figure 5.37. All foreign firms except Kenwah and Synergie employed a strategy of “communicate with PRC government department to obtain implementation licenses”. Kenwah did not communicate with the PRC government departments to obtain licenses is because its partner had good guanxi with local authorities and therefore the local partner finalised all the legal procedures without Kenwah’s presence. Again, Synergie did not do the same because one of the Chinese partners, the Shenzhen City Government, did all the approval process. However, Kenwah and Synergie were two exceptions because they have direct help from their Chinese partners. In other words, other foreign firms need to communicate with the PRC government departments to obtain implementation licenses! In this sense, this strategy is included in figure 5.37.

Full explanation in this conclusion section can be found in section 5.4.5 and again in section 5.8.3/4.
Joint venture negotiation pillar

Four cultural elements i.e. guanxi, face, reciprocity and trust were confirmed to have strong influences on foreign firms' joint venture negotiation process in China and therefore they are maintained on the Sino-foreign joint venture negotiation model as shown in figure 5.36. The renqing element is the only element that has a weak to strong influence acting upon the joint venture negotiation process. A weak to moderate influence is acting upon the SBU and regional controlled groups whereas a strong influence is exhibiting in the entrepreneurial group. However, as explained in section 5.9.2.5, this element should be maintained on the model because it is an effective cultural “tool” in Sino-foreign joint venture negotiation. Therefore, the five elements i.e. guanxi, face, reciprocity, trust, and renqing originally proposed on the Sino-foreign joint venture negotiation model in figure 3.5 are maintained in figure 5.37. Foreign firms employed different strategies to cultivate these cultural relationships. It is difficult to condense these diverse strategies into fewer generic strategies especially the reciprocity and the trust elements as explained in section 5.5.1. Some generic strategies, however, can be found in the guanxi and face elements. Concerning guanxi establishment between foreign firms and their Chinese counterparts, 1) cultivating excellent guanxi with partners and customers; 2) initiating inter-company visits; and 3) emphasising on a long term relationship basis were common. Concerning face, 1) enhancing face by gift giving (mianzi) and 2) avoiding direct confrontation with their Chinese counterparts were effective in face maintenance. Full explanation can be found in section 5.5.1 and again in section 5.8.5.

The Problem Solving Attitude (PSA) is consisted of two components i.e. information collection and information exchange. All foreign firms within the database employed information collection methods including field observation, formal information search and formal analyses on their PRC counterparts. Smaller foreign firms such as Kenwah and Synergie would also employ informal information search from their guanxi members and Chinese officials because of their limitation in financial resources and the scale of their joint venture which would not justify for formal information search via market consultants. Besides information collection, foreign firms also exchanged information with their PRC counterparts that included exchanging company information, exchanging inter-company expectation and matching expectations. As a result of the cross-case/site analyses, the PSA element is maintained on the Sino-foreign joint venture negotiation model figure 5.36. Full explanation can be found in section 5.5.2 and again in section 5.8.6.

Joint venture outcome

This study shows that successful negotiation and implementation of a joint venture do not necessarily give absolutely satisfactory joint venture outcomes. Negotiation of joint venture details with the Chinese partners, of course, can solve some perceived internal operational difficulties such as manufacturing difficulties, technology transfer, process applications and capital resources (Keegan 1995). However, the joint venture outcomes which the author of this thesis proposed are important.
Chapter 5 - Cross Case Analysis

for a foreign firm to perceive China as a separate market rather than as a production base and figure
5.19 suggests that highly satisfied joint venture outcomes are the result of a enduring learning process.

As explained in section 5.6.8, none of the reasons giving by the six firms was compelling except three
i.e. domestic sourcing (figure 5.28), market opportunity (figure 5.32) and patience (figure 5.34). As
such, domestic sourcing was a pre-determined strategy for foreign firms to participate in the Chinese
market. Market opportunity provided incentive for these firms to be persistent and patience was a
must for these firms to become a player. Full explanation can be found in section 5.6 and again in
section 5.8.7.

After the author of this thesis has finished the within case/site analysis, the cross-case/site analysis,
answer to the research questions and the amendments based on the cross-case/site analyses, he now
has complete confidence that the Sino-foreign joint venture model and its associated strategies are
correct. The revised Sino-foreign joint venture negotiation model and its associated strategies are
presented in figures 5.36 and 5.37 respectively. The implications from the within-case/site and cross
case/site analyses will be presented in the final chapter (chapter 6) of this thesis.

This chapter has five major findings:

- The first major finding is that general economic growth and political stability are two major
  concerns for foreign firms to negotiate Sino-foreign joint venture projects in China;
- The second major finding is that different types of organisation, i.e. Strategic Business Unit
  (SBUs), Regional Controlled Unit (RCUs) and entrepreneurial group have different influence
  patterns on their negotiators;
- The third major finding is that the Sino-foreign joint venture negotiation process mainly follows
  the 5 stages, i.e. pre-negotiation, negotiation, post-negotiation, contract signing, and post-contract
  signing stage that the author;
- The fourth finding is that Chinese cultural elements i.e. guanxi, face, renqing, reciprocity and
  trust and the problem solving attitude (PSA) of negotiators form a supporting pillar throughout
  the above Sino-foreign joint venture negotiation process. This finding is consistent with the
  Chinese relationship paradigm that the author of this thesis identified in chapter 2. In this
  context, relationship is emphasised and therefore signing a joint venture contract is not the end of
  the negotiation but is the beginning of a long-term co-operation between the two parties which
  makes further negotiation possible; and
- The final major finding is that there is no positive relationship between implementation of a joint
  venture and joint venture satisfaction except two elements "future investment" and "learning
  experience".

The above major findings help the author of this thesis:
Chapter 5 - Cross Case Analysis

- To make recommendations on Sino-foreign negotiation policies and practice in chapter 6; and
- To establish major contributions of this thesis in chapter 6.

This chapter is important to the whole thesis development because it provides definitive answers to the research questions that the author of this thesis has already put forward in chapter 2 and restated in chapter 3 of this thesis. Also, it helps find answers for the main research problem put forward in chapter 1. It has provided empirical support to the validity of the Sino-foreign joint venture negotiation model.

This chapter confirms the validity of the sino-foreign joint venture negotiation model and provides answers and important findings concerning the topic of this thesis. Chapter 6 is a concluding chapter. Recommendations on policies and practice on Sino-foreign joint venture negotiation will also be presented.
CHAPTER 6- CONCLUSIONS AND RECOMMENDATIONS

6.1 INTRODUCTION

The previous chapter indicated that general economic growth and political stability are two major concerns for foreign firms to negotiate Sino-foreign joint venture projects in China and foreign firms are likely to compromise on other concern such as the bureaucratic attitude of the Chinese legal system. Also, different types of organisation, i.e. Strategic Business Unit (SBUs), Regional Controlled Unit (RCUs) and entrepreneurial group have different influence patterns on their negotiators. Both foreign and Chinese negotiators mainly follow the 5 stages Sino-foreign joint venture negotiation process that the author of this thesis presented in figure 3.5 and 3.6 in chapter 3. Throughout the whole Sino-foreign joint venture negotiation process, the Chinese cultural elements i.e. guanxi, face, renqing, reciprocity and trust and the problem solving attitude (PSA) of negotiators form a supporting pillar. In this context, relationship is emphasised and therefore signing a joint venture contract is not the end of the negotiation but is the beginning of a long-term co-operation between the two parties which makes further negotiation possible. There is no positive relationship between implementation of a joint venture and joint venture satisfaction except two elements “future investment” and “learning experience”. The major findings of this thesis can be found in section 5.8 in chapter 5.

The above major findings affect the construction of this chapter. The author of this thesis will first provide comments on the above findings. Then the author will make recommendations on policies and practice based on these comments. Furthermore, the thesis will present a definitive Sino-foreign joint venture negotiation model. Lastly, major contributions to the extant literature and suggestions on future research will be put forward.

This chapter is vital because it is actually the output of the whole thesis by providing solid suggestions to foreign negotiators when they attempt to negotiate joint venture projects in China. The contributions of this study also fill in the research gaps that the author of this thesis presented in chapter 2 of this thesis.

6.1.1 Chapter objectives

The objectives of this chapter are:
• To give recommendations to foreign negotiations on Sino-foreign joint venture negotiation;
• To compare the joint venture negotiation context between China and major Western countries;
• To establish a definitive Sino-foreign joint venture negotiation model;
• To elaborate the major contributions of this thesis; and
• To provide insights on future research in the area of Sino-foreign joint venture negotiation.

6.2 MAJOR CONTRIBUTIONS OF THIS THESIS

This thesis has six contributions:

• Conceptualisation of a holistic approach to Sino-foreign joint venture negotiation;
• Contribution of a systematic approach to Sino-foreign joint venture negotiation;
• Recognition of a Chinese negotiating pillar;
• Development of a unique Sino-foreign joint venture negotiation model;
• Contribution to relationship marketing paradigm; and
• Contribution to international business.

6.2.1 Holistic approach to Sino-foreign joint venture negotiation

Figure 6.1 is a summary of all Sino-foreign joint venture studies in a 16-year period ending 1999. The summary shows that joint venture in China has become a significant phenomenon in international business and provides a vast promising arena for academic research, the various aspects of joint venture has been seriously under-researched (Fan 1996). As indicated, only four studies are concerned with Sino-foreign joint venture negotiation studies (Davidson 1987; Hakam and Chan 1990; Wagner 1990; Shapiro et al 1991).
## Figure 6.1 Studies of Joint Ventures (JV) in China

<table>
<thead>
<tr>
<th>Study</th>
<th>Foreign partner in JVs</th>
<th>Theme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hendrix (1986)</td>
<td>U.S.A.</td>
<td>Technology transfer in JVs.</td>
</tr>
<tr>
<td>Davidson (1987)</td>
<td>U.S.A.</td>
<td>Negotiation and management.</td>
</tr>
<tr>
<td>Campbell (1989)</td>
<td>Various</td>
<td>Strategies for JVs.</td>
</tr>
<tr>
<td>Dutta and Merva (1990)</td>
<td>U.S.A.</td>
<td>Key propositions for economic evaluation.</td>
</tr>
<tr>
<td>Hakam and Chan (1990)</td>
<td>Singapore</td>
<td>Key factors in negotiation process.</td>
</tr>
<tr>
<td>Hencky and Nyaw (1990)</td>
<td>N/A</td>
<td>Management system and organisation.</td>
</tr>
<tr>
<td>Nyaw (1990)</td>
<td>N/A</td>
<td>Roles of trade union in JVs.</td>
</tr>
<tr>
<td>Wagner (1990)</td>
<td>N/A</td>
<td>Strategic environmental influences on JV negotiations.</td>
</tr>
<tr>
<td>Baumgarten and Rivard (1991)</td>
<td>U.S.A.</td>
<td>Evolution of conditions for JV.</td>
</tr>
<tr>
<td>Newman (1992)</td>
<td>U.S.A.</td>
<td>Stages in starting a viable JV.</td>
</tr>
<tr>
<td>Pan, Vahonmacker and Pitts (1993)</td>
<td>11 countries or regions</td>
<td>Operations and potential and closing-down.</td>
</tr>
<tr>
<td>Au and Enderwick (1994)</td>
<td>New Zealand</td>
<td>Small firm’s perception on JV investment.</td>
</tr>
</tbody>
</table>


Davidson’s (1987) study was a questionnaire survey on 47 U.S. firms that involved the creation of joint venture through negotiation and their perceptions on management issues with their Chinese partners. Hakam and Chan’s (1990) study was concerned with a Singapore electronic firm contemplating investing in China and considered the cultural factors in the negotiation process. However, Davidson (1987) and Hakam and Chan’s (1990) discussion on culture limited to the concepts of guanxi and face and other cultural elements i.e. renqing, trust, and reciprocity had not been widely admitted as academic topic at that time. Wagner (1990) conducted a study of strategic environmental influences on joint venture negotiations. She discussed the economic, political, technological influences on joint venture negotiation. However, her study was purely a literature review without any empirical fieldwork. Also, the legal framework on establishing a joint venture has not even been touched on. Shapiro et al’s (1991) study was concerned with the discussion of the investment environment of one joint venture negotiation between U.S. and China. The discussion was limited to the general economic, political, technological environment plus the essential discussion on
market potential, sales, investment amount and others such as management structure regarding the joint venture.

The above four studies only investigated some piecemeal aspects of the joint venture negotiation. The rest of the studies in the summary, were not concerned with joint venture negotiation but rather looked at other aspects of joint venture such as management structure (Li 1989; Henley and Nyaw 1990; Child et al 1989) and motivation (Glaiser and Wang 1993; Daniel et al 1985).

This study is important to add to the extant literature because it adapts a holistic approach to Sino-foreign joint venture negotiation. It investigates Sino-foreign joint venture negotiation from the very beginning of a foreign firm’s internationalisation process to the Chinese market (its strategic environment) through the evaluation of organisational constraints to the Sino-foreign negotiation process and ending up with the evaluation of joint venture performance. Instead of investigating piecemeal aspects of joint venture negotiation, this study investigates the whole Sino-foreign joint venture negotiation process.

6.2.2 Systematic approach to Sino-foreign joint venture negotiation

Another key contribution of this study that is significant to the extant literature is the discovery of the relationship between the Chinese legal procedures and the stages of the joint venture negotiation process. Figure 2.17 in chapter 2 shows that the progress of Sino-foreign joint venture negotiation from one stage to the next is driven by the Chinese legal procedures for joint venture establishment. Their influential aspect has further been proved by the cross-case analysis in section 5.4 of chapter 5. The discovery of this relationship implies that a foreign firm can take a systematic approach to the joint venture negotiation process. Foreign firm must carefully monitor the economic development in the Chinese economy because the Chinese leaders amend legal procedures and requirements of joint venture establishment according to the Chinese economic development. For example, when Otis established its first manufacturing joint venture in 1984, its capitalisation was US$ 5 million. However, the capitalisation of their latest manufacturing joint venture in 1995 was US$ 30 millions. The US$ 30 million requirement is actually the legal requirement for joint venture establishment at State level approval (Sum 1996).

6.2.3 Chinese negotiating pillar

Another important contribution in this thesis is to advocate a cultural negotiation pillar that consists of two components, i.e. the Chinese cultural elements and the problem-solving attitude (PSA) in Sino-
foreign joint venture negotiation. Without PSA, negotiators of both sides lack the incentives of collecting information and exchanging information with the other side. Also, the mutual appreciation of Chinese cultural elements i.e. guanxi, face, reciprocity, renqing and trust will not be achievable by both parties.

Buttery and Leung (1998) found that there are vast differences between Chinese and Western culture on three Hofstede’s (1991) cultural dimensions i.e. power distance, individualism, and long-term orientation which are believed to initiate vast differences in negotiating style between the Chinese and the West. This study has expanded Hofstede (1991) and Buttery and Leung’s (1998) works by including five Chinese cultural elements, i.e. guanxi, face, reciprocity, renqing, and trust on the Sino-foreign joint venture negotiation model and empirically tested them in a Sino-foreign negotiation context. This study finds that the mutual understanding and the mutual respect of these five Chinese cultural elements by both the foreign and Chinese negotiators establish a long-term relationship between them. Full discussion on their impact on long-term relationship can be found in section 5.5.1 in chapter 5.

The PSA consists of “information collection” and “information exchange” has been consistently field-tested in a Western environment (Karrass 1970, Graham et al 1988 and Rubin and Brown 1975) but it has not been verified in a Sino-foreign joint venture negotiation environment. This study empirically tested the PSA concept in this environment and found that the PSA is extremely important in Sino-foreign joint venture negotiation. A full discussion of PSA and its importance in sino-foreign joint venture negotiation can be found in section 5.5.2 in chapter 5.

6.2.4 The Sino-foreign joint venture negotiation model

Another key contribution of this thesis is the establishment of a Sino-foreign joint venture negotiation model and its associated strategies in chapter 5.

The establishment of this model is to integrate the environment context, the organisation context, the negotiation process and the negotiating culture that were fully explained in section 2.2.1 of chapter 2. This model and its associated strategies will add to the extant joint venture negotiation literature because no author has ever proposed such a model as shown in figure 6.1 above.

6.2.5 Contribution to marketing paradigm

This study contributes to the marketing literature by identifying the relationship as a marketing paradigm when entering the Chinese market. The use of relationship in China marketing can be cited at country level, organisation level and personal level. For example, the Chinese political leaders
refused former British Governor of Hong Kong, Chris Patten to visit Beijing because of his autonomous amendment of the Basic Laws because he had a bad relationship with China and the Chinese leaders did not give him face. Another example was cited at organisational level. Hong Kong Telecom hired Mr. Lu Gang, the son of Mr. Lu Ping-Beijing’s chief of Hong Kong Affairs, to cultivate valuable relationships with China’s Ministry of Posts and Telecommunications (Anonymous author, The Australian 1995). Another example was cited at personal level. Mr. Daniel So of Synergie in the case study utilised his personal relationship to establish a joint venture in Shenzhen. Buttery and Leung (1998, p.387) fully agreed with this relationship paradigm. “In the case of China it would be misleading to see the negotiation process as a pure economic exchange process, rather it is more of a process of matching both the technical aspects of the product and service to the requirements of the buyer but simultaneously matching the friendship and trust generation aspects of doing business.”

6.2.6 Contribution to international business

This study contributes to the understanding of a firm’s internationalisation process to the Chinese market. This study reveals that a firm’s major consideration to enter the Chinese market is based on its “general economic growth” and “political stability” as explained in section 5.2 in chapter 5. Only with these two important characteristics will a firm compromise on other factors such as the degree of technology transfer and the management structure of a joint venture. In addition to a firm’s internationalisation process, the strategic environment in China also confines a firm’s choice to equity and co-operative joint venture as explained in section 2.4.2.1 in chapter 2.

The internationalisation of a firm to the Chinese market and the characteristics of China’s strategic environment heavily emphasise economic potential, and its legal procedures will add to that part of the extant international business literature when a foreign firm attempts to penetrate the Chinese market.

6.3 RECOMMENDATIONS ON SINO-FOREIGN JOINT VENTURE NEGOTIATION POLICIES AND PRACTICE

6.3.1 Unique Selling Proposition (USP)

When foreign firms attempt to negotiate for joint ventures in China, they must consider the USP of their joint venture proposals. These USPs are detailed below.
6.3.1.1 Strategic fit into the Chinese environment

When foreign firms attempt to approach the Chinese market through joint venture, they must consider the potential contribution of their ventures in the context of the Chinese economic, legal system and technological developments. In saying that, the establishment of these joint ventures must be proven to have a positive impact on the local economy in terms of economic growth, employment recreation whilst not hurting the domestic industries at the same time. These contributions must be expressed explicitly on the joint venture proposal. Keegan (1995, 143) concurs: “investors who are operating in less developed countries must be prepared to justify on a continuing basis the contribution they are making to the perceived welfare of the less developed state. Since most companies are unable to demonstrate a continuing unique advantage over local enterprise, this typically requires a very flexible attitude and willingness to adjust the terms and conditions of participation in the developing country. Only enterprises that have a unique advantage technologically or in some other way are able to resist efforts on the part of less developed states to appropriate equity and management participation in their operations.”

Within the case database, Bayer transferred technologies to domestic joint ventures whilst satisfying the domestic demand for chemical products that the local industries cannot produce. Otis and IBM, whilst they enjoyed reasonable profits in the Chinese market, also helped the Chinese government train up technical experts in their areas. Kenwah did not contribute in the technology area but they helped create employment in the locality of the joint venture. Asia Link supported their Chinese partners and clients with innovative technology and capital arrangement. Synergie contributed a very unique computer graphic technology to the Chinese market.

6.3.1.2 Restructuring

Foreign firms can also consider helping the Chinese Government to restructure their industries so as to release the burden of government coming from the State Owned Enterprises (SOE). Mr. CK Chow, CEO of BOC Gases shared his company experience in China: “often in China you will find four air separation plants in one area supplying (what) one plant could provide. We can integrate those operations and position ourselves in the region without hundreds of millions of dollars’ worth of investment.” (Yeung 1995, p.12). This method is cost effective, commercially viable and economically visible. Mr. Oei Hong-leong, owner and director of Strategic Investment Ltd added: “today state-run enterprises are a liability to the government, not an asset” (Tanzer 1993, p.211). Mr Oei found that provincial political cadres were more eager to get loss making enterprises off their book. However, purely relying on capital injection and organisational restructuring may not fully revitalise the troublesome Chinese organisations. One experienced Chinese investor commented that Chinese enterprises normally need an injection of capital and purchase of new equipment at the same
time. Lack of modernisation drive in the State owned factories could create conflict between the two parties that make future negotiation on joint venture development difficult (Tsang et al 1998).

In summary, helping the Chinese government to restructure a particular industry through effective integration of loss-making factories is a unique selling proposal (USP) for foreign firms to negotiation for joint ventures in China.

6.3.1.3 Technology leadership

This research shows that not only technology leadership is important but also the question of how to provide such leadership is equally vital. Multi-national companies such as IBM, Otis or Bayer associated themselves with various industries to disseminate their technologies. Technology leadership can also be achieved by co-operating with marketing channel members. For example, Asia Link ensured the penetration of their technology through their customer China Unicom.

In summary, helping the Chinese Government to improve industry standard through technology leadership is a unique selling proposition (USP) to the Chinese Government.

6.3.2 Environmental contexts

The foreign firms should also consider the Chinese environmental contexts before they negotiate for joint ventures.

6.3.2.1 Strategic locations of the joint venture

Selection of a market location is an important consideration (Baker 1991). Foreign firms are advised to search for strategic locations to negotiate for their joint ventures. These strategic locations are some important Chinese cities that are characterised by their higher economic growth than the national average and intense competition. For example, Beijing, Shanghai, Tianjin and Shenzhen were the cities selected by the foreign firms in this study to establish their joint ventures. The GNPs in these cities are the highest in China (Anonymous author, China Statistics Yearbook, 1998). In addition to the higher than national GNP, these cities are also important industrial cities in China. Also, these cities normally have huge populations. For example, Beijing and Shanghai in total have a population of 20 million (Anonymous author, China Statistics Yearbook 1998). These three factors imply that these cities already have a huge domestic market and excellent infrastructure support such as technical knowledge, telecommunication, and human resources. Naturally, competition for establishing joint ventures in these cities is intense because they are important in the foreign firms’
marketing and expansion plan in China. As such, foreign firms in this study establishing joint ventures in these cities were strategic in nature because 1) these cities have huge market potential; 2) they have essential infrastructure support for their joint ventures; and 3) they are important to obtain market share in a highly competitive market.

The growth in GNP in China in general and the higher growth in GNP in the strategic locations in particular have raised the level of labour cost in China. In saying that, foreign enterprises should not purely treat China as a production base for export. Cost of production in China is bound to increase because of its growth in economic activities and therefore a purely production concept is not going to survive in China. More importantly, foreign firms should negotiate the joint ventures in these strategic locations and prepare themselves for the domestic market when it takes off.

In summary, foreign firms should seek a location that has 1) essential infrastructure support for the ventures, 2) high market potentials, and 3) strategic implication on improving market share in a highly competitive market. However, a location that has these three characteristics increases the labour cost. Therefore, foreign firms should not treat them as a production base; rather they should treat it as a future potential market for their products and services.

6.3.2.2 Legal System

This study shows that the stable political environment is an important factor for foreign enterprises to negotiate for joint ventures in China. However, its political administrative structure as the author mentioned in section 2.4.1.3 of chapter 2 implies that the laws and regulations in the Chinese legal system can be amended by the political leaders if they see that there is need for such change. For example, the Chinese government recently banned all direct marketing activities and all direct marketing firms were ordered to close down by 31th Oct 1998. The Chinese Government perceived that direct marketing was not in line with the Chinese traditional concept of retailing (Anonymous author, South China Morning Post, 23/4/1998). As such, the legal system has been evolving since the Open Door Policy in 1978 to search for a system that can accommodate both the capitalistic foreign direct investment and the Chinese distinctive socialistic environment.

In addition to the evolution of its legal system, the inefficient implementation of the Chinese laws and regulations by different levels of Chinese authorities has been confusing the business community. In saying that, the lower level officials may not vigorously follow the laws and regulations that are promulgated at State level. For example, the Central Government imposed tougher regulations on land use approval process at various levels because the lower level officials have not implemented the State policies on land use accordingly (Anonymous author, Hong Kong Economic Journal, 27/4/1998). Therefore, when foreign firms negotiate for joint venture in China, they should take very
serious approach in drafting the contract because it could avoid potential conflict between the two parties at the implementation stage.

According to the research findings in sections 5.4.4 of chapter 5, foreign firms treated the change in economic policies as their PRC partners’ problem. However, there is a possibility for the Chinese government to impose equal economic treatment on domestic and foreign firms when China continues opening up its market and actively seeks membership in the World Trade Organisation (WTO) as the author of this thesis mentioned in section 5.8.1 of chapter 5. In other words, such legal changes related to economic policies are not purely the problems of the foreign firms’ PRC partners because legal aspects regarding direct foreign investment will be localised.

Whilst the foreign firms monitor the legal system, they should not attempt to change that socialist legal system which is different from the West as the author identified in section 3.6.7 of chapter 3 of this thesis. Because the Chinese Government put the political administrative system above the legal system as the author discussed it in section 2.4.1.3 of chapter 2, attempting changing the Chinese Socialist legal system is equated to attempting changing the Chinese political administrative structure which is definitely not permitted in the Chinese context. Under this legal context, foreign firms should protest to the Chinese Government and negotiate for better terms within the legal system rather than changing this legal system. CEO of BOC Gases, Mr. CK Chow, cited a very good example in legal difference between the East and West: “Discussions of a force majeure clause whereby the joint venture contract would cease to be valid in the event of ‘act of God’ such as earthquakes, floods, and typhoons–highlighted certain cultural differences are common in western practices. At one point our Chinese lawyer said, ‘we are a Communist country. We do not recognise acts of God.’” (Young 1995, p.12) Therefore, foreign firms should aim at negotiating through the Chinese legal system rather than changing it because it may cause serious mistakes. As former Prime Minister Li Peng says: “China’s reforms are aimed at perfecting, not changing, the Socialist system.” (Delfs 1989, p.59) It also implies that mediation is a more effective way of solving a legal problem when it arises.

In summary, foreign firms are advisable:

- To monitor the change in the Chinese legal system and respond because the change will have implication on change in company policy;
- To study the joint venture contract very carefully because court actions will be the final place for resolution after mediation between the two parties fail; and
- To recognise the differences between the Chinese and the Western legal system rather than attempting changing the Chinese system because the action will not be tolerated by the Chinese leaders under the political administrative system.
6.3.3 Organisational context

Foreign should note the bureaucratic structure of the Chinese organisation and the organisation structure to improve their understanding of their joint venture partners.

6.3.3.1 Bureaucratic structure of the Chinese organisation

This research shows that general business principles apply, such as the identification of common marketing and financial goals of both foreign and Chinese firms when foreign firms attempt to negotiate. However, it is equally important for foreign firms to identify the bureaucratic structure of their PRC counterparts because nepotism, cliques, and patronage systems exist in a Chinese commercial organisation (Redding and Tam unpublished paper). As Dr. Jur Markus Arnold of Bayer mentioned that nepotism was not unusual when they approached MOFTEC for partner identification. Mr. Daniel So of Synergie had similar experience when his firm wanted to confirm the details of their joint venture partners in China: “when we were talking about this joint venture project, they had to decide who should take up this project and they had a big fight among themselves!”

In summary, foreign firms should identify the bureaucratic structure of their Chinese joint venture partners to help them uncover the decision-makers within that Chinese organisation.

6.3.3.2 Establishment of a strategic business unit (SBU)

This study shows that flexible organisational structure is a vital component to penetrating the Chinese market. Foreign firms must take a long term prospective and recognise China is a unique market. Separate SBU must be established and authority must be downloaded to the SBUs so that they can respond to market change in requirements more quickly. IBM and Bayer set up their China divisions because they recognised such need. Otis established a holding company in China in September 1997, 13 years after they set up their first joint venture in Tianjin.

In summary, foreign firms should treat China as a distinctive market and establish a SBU so as to react quickly to the market needs.

6.3.4 Connection

In theory, foreign firms can go through MOFTEC or some Chinese middle company such as China International Trust and Investment Corporation (CITIC) to identify joint venture partners in PRC. But it can be a long march for small companies within the complicated bureaucratic procedures if they do
not have connection or relationship in China. Connection or relationship helps foreign firms in two aspects i.e. identification of potential partners and provision of information on potential partners' status.

Connection can help the foreign firms identify potential partners in the PRC. It cuts through all the bureaucratic red tapes for foreign firms and may possibly shorten the formal application procedures. For example, Kenwah obtained the business license for their joint venture within 80 days by utilising their connection in China. In fact, almost all foreign firms within the database have their own connections in China except Donaldson. Their joint venture is considered a failure.

Connection can also provide valuable information on the potential partners credit worthiness. This is especially vital for small foreign firms when they cannot financially support expensive formal market research. In saying that, collection of information from these connections should only be used as supplements to formal market research and evaluation. More formal market research must be done.

In summary, foreign should endeavour to identify some connection or relationship in China before they negotiate for joint venture projects because:

- Connection or relationship can cut through all the bureaucratic red tapes; and
- Connection or relationship can provide valuable information such as financial situations of Chinese partners to the foreign firms.

6.3.5 Chinese joint venture negotiation process

This study confirms that joint venture negotiation is a five-stage process. Negotiating strategies are emerged at each stage have been fully discussed in chapter 5 section 5.4. This section is to give recommendations on these negotiating strategies.

6.3.5.1 Pre-negotiation stage

Foreign firms are advised to carefully monitor the bureaucratic structure within Chinese organisations in private meetings to avoid potential conflict in formal negotiating meeting so as not to cause the Chinese party to lose face. Also, socialisation with the Chinese negotiators in private meetings is important to establish *guanxi*. Enjoying banquet while talking business is just a way of life in China. Michael Pointer, managing director of an Australian Sheepskin company concurred: “I did more business over banquets that I ever did in negotiating rooms.” (Blackman, 1997, p123)
Identifying the PRC negotiators' private goals is another aim of doing business in banquet because the PRC negotiators are reluctant to release them in formal meeting. Foreign firms should fulfill these private goals if they are within the ethical and legal limits because the action can help smooth negotiation. For example, sponsoring the PRC negotiators' kids for overseas studies and providing management positions to these PRC negotiators in joint ventures are possible solutions to help whilst maintaining the legal and ethical standards.

While doing the above, identification of common marketing and financial goals are vitally important during the pre-negotiation stage. These business goals must be harmonious but yet flexible to satisfy the needs of both parties.

6.3.5.2 Negotiation stage

Foreign negotiators must adopt a collaborative attitude when they negotiate so as to achieve a win/win situation. Clarifying joint venture issues such as investment amount and PRC level of commitment in the venture are important, and the techniques of probing, questioning, answering and providing examples are all essential to help arrive a win/win situation.

Patience is an important criterion at this stage. Avoid setting schedules and deadlines for the joint venture negotiation. The Chinese concept on time is different from that of the West and pushing time by few months or few years will certainly make no difference to the Chinese 5,000 years history. Therefore, foreign negotiators should expect to travel between their home country and China frequently.

Taking a break in some deadlocking situation is an effective strategy. The Chinese are more willing to reveal the reasons of their disagreements in a private forum. Also, it can save face and maintain face of both parties.

Emphasising the potential contributions of the joint venture projects from the Chinese prospective is important because that can help them sell the proposal to their senior management up the hierarchy.

6.3.5.3 Post-negotiation stage

China is basically a planned economy and therefore its economic, legal and technological policies may be changed when the Chinese leaders see there is a need for such change to sustain the ideology and stability of the Chinese society. For example, when Chinese leaders recognised the economy was over-booming which may cause hyperinflation; they imposed the macro-economic control on 24th
June 1993. Likewise, when the Chinese leaders considered direct marketing could jeopardise the social stability, the State Council banned all the direct marketing activities on the 22 April 1998 (Anonymous author, South China Morning Post, 23/4/1998). Because of the change in government policies, Chinese negotiators, on some occasions, attempted to change the agreed terms on the joint venture. For example, Bayer mentioned that their PRC partner wanted to amend land prices due to a change in economic policy. Foreign negotiators should investigate the Chinese requests extensively. Trade-off is an effective strategy to respond to the Chinese negotiators. That is, foreign negotiators should agree to those changes only if they could negotiate for a better term in another area on the contract.

PRC negotiators’ initiation of change on the agreed terms due to change of government policies implies that foreign negotiators treat these changes as their partners’ problems. However, as the author mentioned in the legal system section above, there is a possibility that the Chinese government will put equal treatment on domestic and foreign firms because of the continued opening up of the Chinese market and China’s intention to join the World Trade Organisation (WTO). In saying that, the Chinese Government change in policies will eventually influence the operation of the joint venture. Studying the implications of these policy changes on the joint venture is beneficial to the foreign negotiators.

6.3.5.4 Contract signing stage

Checking contract terms carefully is necessary at this stage after numerous changes have been put on the joint venture contract. Cautiously investigating the contract before signing it is a way to avoid potential conflict in the future.

6.3.5.5 Post contract-signing stage

According to this study, there are two types of Chinese negotiators. The first type treats business contract as binding and cannot be changed at will unless the change is absolutely necessary. The second type treats that business contract is a commercial agreement and should not be the last word on anything.

The first type is a younger generation negotiator who understands the spirit of a contract and they don’t intend to change the terms after signing the contract. IBM, Otis, Bayer all mentioned that their PRC negotiators did not change the terms on the contract after it was signed. In addition, these foreign firms have demonstrated their commitments to the Chinese market and have earned the respects of their Chinese counterparts.
The second type of Chinese negotiator belongs to the older generation that is relatively inexperienced in modern business style and may not be able to perceive potential problems in the venture. Therefore, he/she may have the need to change the contract terms after it is signed. Synergie mentioned that the Chinese negotiators like to change terms on a regular basis.

No matter which type of negotiators the foreign firms will deal with, the foreign negotiators must understand harmonisation must be maintained. The techniques of giving examples on consequences on changing terms given by the foreign negotiators are especially effective for the second type of negotiators.

Higher level negotiation with the PRC negotiators' superiors is absolutely not a good thing to do for project implementation because it will cause the Chinese negotiators to lose face and disrupt the guanxi of both parties.

6.3.6 Joint venture negotiation pillar

This study shows that cultural element i.e. guanxi, face, reciprocity and trust and the foreign negotiators' problem Solving Attitude (PSA) are extremely important institutional supports on Chinese joint venture negotiation.

6.3.6.1 Cultural elements

Establishing good guanxi with Chinese business partners through visits and business tours to the other partner's company and country respectively is equally essential to having banquets with the Chinese partners. In addition, exchanging gifts are good ways of building up relationship.

Face of both parties must be maintained. Exchanging arguments, correcting the Chinese counterparts' mistakes in formal meetings can cause them to lose face. The foreign negotiators should try to avoid arguments and attempt to 'clarify issues' to save face of their Chinese counterparts, no matter whether the clarifications are conducted in formal or private meetings.

Educating the Chinese counterparts from an 'expert' position is considered aggressive behaviour and it is not going to be appreciated by the Chinese counterparts. Modest and genuine presentations, on the contrary, can gain face and trust from the Chinese negotiators.
The study shows that the Chinese Government will appreciate foreign company donations to the local Chinese community and procuring materials from local suppliers. Government departments such as MOFTEC, in turn, will assist foreign firm to find an appropriate joint venture partner. This cultural strategy was employed by the Hong Kong property tycoon Li Ka-shing when his firm penetrated the Chinese market in the early 1990s (Wang 1995). Li donated a University to the Chinese government. He developed 'guanxi', face and trust from the Government that established his success in China market.

Renqing is a major strategic support in the Chinese political history. For example, the newly elected Prime Minister Zhu Rongji ordered the State Owned Enterprises (SOEs) to provide basic necessities to people who were dismissed by these SOEs so social stability and the renqing historical traditions could be maintained (Anonymous author, Apple Daily News, 21/5/1998). This concept is rather illusive based on the findings of this research, however. Foreign firms attempt to take something back while they give away a resource during negotiation. On some occasions, foreign firms may have to give something based on humanitarian ground in advance, or give the PRC counterparts a renqing. It makes further negotiation possible!

Trust is found to have vital influence on joint venture negotiation in this research. Foreign firms use several tactics to establish their trust with their Chinese partners. First, long term associations with various ministries establish foreign firms' reputation and therefore trust within these ministries. Second, close co-operation between PRC partners build up trust. These two strategies are effective to make joint venture negotiation on new projects possible.

Foreign negotiators are advised to be aware of the above cultural elements when they negotiate for joint ventures in the Chinese market. DeKeijzer (1986, p.134) concurs, "The most fundamental lesson is the realisation that in China doing business is a cultural as well as economic transaction."

6.3.6.2 Problem Solving Attitude (PSA)

Concerning problem solving attitude (PSA), foreign negotiators are advised to collect information and exchange information with their PRC counterparts. Collecting information may be formal such as market research and conducting due diligence assignments on PRC partners or informal as collecting information from 'guanxi' members on their potential PRC partners. Information collected can help foreign firms to identify the needs in Chinese market and the main issues in joint venture negotiations. Exchanging information with PRC partners can help to understand the expectation of both parties on business scope, profit and sales expectation etc. PSA is found to be extremely important in this study. As the author consistently emphasises, joint venture negotiation should aim at solving potential problems in the venture rather than just signing the joint venture contract. In other words, the signing
of joint venture contract should be based on mutual understanding on the both parties' expectation, commitment and cultural appreciation in the unique Chinese market. Donaldson, the only failure firm in joint venture negotiation within the database in this study, lacked this mutual understanding in the Chinese venture. Foreign firms must proceed with this negotiation pillar in mind to avoid turning their joint venture negotiation into adventures in the Chinese market.

6.3.7 Joint venture outcome

This study shows that successful joint venture negotiation will not automatically give satisfactory joint venture outcomes. For example, successfully establishing a joint venture will not automatically give satisfactory profit result as indicated in section 5.6.1 in chapter 5.

Foreign firms are advised to proceed with a long term prospective in the Chinese market. Profits and sales are the end results of enduring business development after joint ventures are established in the Chinese market.

The study also shows that human resource management is a continuing problem for foreign firms. Foreign firms are advised to have a full assessment on this issue when they negotiate with their PRC partnering firms. In saying that, foreign firms must consider other compensation areas besides salaries and wages because other labour benefits such as social benefits and social security subsidiaries may be equal to half of the salaries and wages (Man, Hong Kong Economic Times, 27/11/97, A7) subjected to individual province's regulations.

Provision of on-job training to Chinese employees can increase human assets for the ventures and can establish good relationship with them. These employees, at the same time, may be able to provide connections through their guanxi network in China and provide opportunities to foreign firms to negotiate new joint ventures in China. For example, Hercules' Chinese-born employees formed an advisory council to discuss the company's China projects with management and helped provide local contacts (Wood 1995).

This research also shows that material procurement is a strategic decision in the Chinese market. The Chinese government would like to see foreign firms procuring their materials in the domestic market. IBM and Otis are foreign firms that source their materials extensively in China. Therefore, foreign firms need to consider material procurement as a long-term strategy in China.

In summary, foreign firms are advised to adapt a long-term strategy in China that includes provision of human resource training to local personnel and procurement of materials from domestic suppliers.
6.4 COMPARISON OF JOINT VENTURE NEGOTIATION CONTEXT BETWEEN CHINA AND WESTERN COUNTRIES

Figure 6.2 shows a comparison of joint venture negotiation context between China and Western countries. As shown, major differences can be found in the areas of strategic context and the joint venture negotiating context.

6.4.1 Strategic context

As shown, China is a centrally planned economy and has been adopting a political administrative structure in attracting direct foreign investment (DFI) into the country. This political administrative system was fully explained in section 2.4.1.3.3 of chapter 2. The legal application procedures for joint venture establishment such as item listing, feasibility study, approval on joint venture contract and obtaining business license are heavily regulated through the central planning authorities. These central planning authorities are MOFTEC, the State Planning Commission (SPC) and the Economic Planning Commission (EPC). Besides these central planning authorities, the foreign joint venture partners must also obtain approvals from their corresponding industrial ministry and the environmental ministry to minimise impacts such as competition and pollution on the Chinese economy and environment.

Another key aspect of the Chinese strategic context is the national control on its foreign exchange. From 1980 to 1995, China has imposed a strict control on its foreign exchange via the People's Bank of China (BOC). During this period, the BOC issued Foreign Exchange Certificates (FECs) for foreign companies to purchase commodities and services in the PRC that practically limited the exchange of foreign currency to the limit specified on the FECs. However, the PRC has implemented a series of foreign exchange reforms since 1995 to prepare itself for the entry to the World Trade Organisation (WTO) (Li et al 1996). One of the reforms is to allow foreign investors foreign to take out foreign currency equivalent to US$ 1,000 cash from the country (Li et al 1996).
### Figure 6.2  A comparison table of joint venture negotiation context between China and Western countries

<table>
<thead>
<tr>
<th>Joint venture negotiation context</th>
<th>China</th>
<th>Western Countries¹</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Australia</td>
</tr>
<tr>
<td>Strategic Context</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political/legal context</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Controlling government / Legislation</td>
<td></td>
<td>Political and legal systems are separate entities.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- MOFTEC</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- State Economic Commission</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- State Planning Commission</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Ministry Approval</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Environmental Planning Commission Approval</td>
</tr>
<tr>
<td>Central Planning/ Economy</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>⇒ Item listing on central planning</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>⇒ Approval on feasibility</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Study by government</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>⇒ Approval on joint venture</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>⇒ Obtaining business approval</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>⇒ Exchange Control</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Joint venture negotiation context</td>
<td>5 stage</td>
<td>3 stage</td>
</tr>
<tr>
<td>No. of Negotiating stages</td>
<td></td>
<td>Transaction oriented</td>
</tr>
<tr>
<td>Negotiating culture</td>
<td>Relationship oriented</td>
<td>Low</td>
</tr>
<tr>
<td>⇒ Power distance</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>⇒ Individualism</td>
<td>Low</td>
<td>Low</td>
</tr>
<tr>
<td>⇒ Long-term orientation</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Problem-solving attitude</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>


In contrast, the major Western countries, i.e. Australia, Great British, and the U.S.A. defined by Buttery and Leung (1998) have a completely different political and legal system. Within this system, the political and legal systems are two separate/independent entities; one system cannot interfere with another system. The political system is responsible for the development of laws and the legal system is responsible for the interpretation and implementation of the laws.

These major Western countries have well defined legal codes to regulate company investment. The Australian Government regulates foreign investment through the Foreign Investment Review Board.
(FIRB) which obtains its power from the Foreign Acquisitions and Take-overs Act. Normally, the FIRB will not interfere any foreign investment in Australia if the investment amount is under A$ 0.5 million. In addition, foreign investors can be naturalised to Australian status. Once a business is naturalised, it will be treated as domestic business (Hemming and Parshall 1995).

There are two methods of acquiring businesses in the Great Britain, i.e. share or asset acquisitions. There is no restriction for foreign businesses to acquire assets of a company in U.K. However, if a foreign business wants to acquire shares in a public listed company in U.K, then the acquisition is governed by the provision of Take-over Code. In both cases, once the acquisition is over, the new business entity created by the acquisition shows no difference from a domestic firm in terms of tax and legal treatment (Barham 1995).

The U.S. government treats foreign investment generally the same as domestic investment. Foreign businesses may freely bring funds into the United States and, subject to taxation and withholding requirements, freely repatriate funds and profits to their home countries. The Department of Commerce, however, pursuant to the International Investment Survey Act of 1976, requires reports to be filed on the initial establishment of a business enterprise in the U.S. owned at least 10% by foreign persons (Uhrynuk and Sarles 1995).

In contrast, China has a political administrative structure that uses a legal system as a tool to regulate direct foreign investment (DFI). This legal system consists of rules and regulations that are operated via three central planning authorities, i.e. MOFTEC, the State Planning Commission (SPC) and the Economic Planning Commission (EPC). Foreign businesses, when establish joint ventures in China, must go through a prescribed procedures such as approvals of investment items, feasibility study, joint venture contract and business license before they can operate in China. In addition to the prescribed legal procedures of establishing joint ventures, the Chinese government also imposes restriction on the foreign exchange between China and the rest of the world. In contrast, the Western countries impose almost no restriction on foreign business activities in their countries so long as these businesses play by the rules prescribed by these governments. In addition to this freedom of entry, these major Western countries also do not impose any restriction on foreign exchange.

The difference in the Western and Chinese legal system is that the Western legal system is isolated from the political system in that it can defend justice without considering the political implication to this justice whereas China is using the legal system to achieve objectives established by the political leaders.

The difference between the Western and the Chinese system can be demonstrated by using an example in Hong Kong. According to the basic law, Hong Kong will continue using the British common law system for 50 years after it returned to China in 1997. The British common law system
allows the court judge to operate independently from the political system. However, when the judge in the Hong Kong Court for Final Appeal made a decision to allow the children of Hong Kong citizens who are born in China a right of abode, the decision aroused the attention of Beijing. The political leaders attempted to interfere with this decision (Anonymous author, Oriental Daily News 27/2/99 A20). Under a purely common law system, the political leaders simply cannot interfere.

In summary, foreign firms need to structure their negotiation approach according to the Chinese market unique strategic context when they enter this market through joint venture because the political structure, legal procedures and commercial practice such as foreign exchange are all different from that of the Western countries.

6.4.2 Joint venture negotiation context

Section 6.4.1 compares the political and legal differences between China and major Western countries. This section is to compare the differences of joint venture negotiation contexts between China and these Western countries.

6.4.2.1 No of negotiation stage

As shown in figure 6.1, the Sino-foreign joint venture negotiation process has 5 stages that the author of this thesis has already proved in chapter 5. In contrast, the Western joint venture negotiation process only has 3 stages as fully explained in section 2.3.3.4 and figure 2.5 of chapter 2. This difference, together with the highly bureaucratic joint venture legal application procedures as specified above, indicates that the Sino-foreign joint venture negotiation process may take longer time to complete or even delay the establishment of the joint venture. For example, an article appeared in the South China Morning Post stated that:

Red tape in Beijing has stalled power generation deals worth about USS 55b... signed during a highly publicised visit last year by US Commerce Secretary Ron Brown. In Hong Kong yesterday after his second trip China in 15 months, Mr. Brown was frustrated by the lack of progress and said he had urged the Chinese Government to streamline its approval process. "I think there has been some embarrassment that the bureaucratic red tape has had hard to cut through" he said after a speech to the American Chamber of Commerce. "They are as anxious as we are to get these projects moving". (Clayton 19/10/1995, p.B1)

The above example shows that the joint venture negotiation process is a lengthy process and contract can be re-negotiated.
6.4.2.2 Negotiating culture

The author of this thesis has already discussed the cultural differences between China and major Western countries in section 2.4.4.1 of chapter 2. Differences are found in the cultural dimensions of power distance, individualism and long-term orientation that are presented in figure 6.2 above. The high power distance, low individualism and high long-term orientation indexes obtained by the Chinese in Hofstede’s (1991) study of the Chinese sample identified the Chinese to have a relationship-oriented culture whereas the West is confirmed to have a transaction-oriented culture (Gundlach, 1993).

Based on the relationship-oriented cultural concept, the author of this thesis developed and confirmed that 5 Chinese cultural elements in chapter 5, i.e. guanxi, face, reciprocity, renqing and trust are important to establish relationship between the foreign and the Chinese partners. This relationship is the first component in the negotiation pillar proposed by the author of this thesis in figure 5.37 of chapter 5.

In contrast, the Western style of joint venture is transaction-based. The outcome of the Western negotiation generally lead first, to an agreement in principle, which invariably is followed by a contract being signed in situations where some aspect of the negotiation requires something to be delivered or completed in the future. The contract is viewed as legally binding on both parties and if the contract is broken it is likely to lead to court proceedings (Buttery and Leung 1998).

6.4.2.3 Problem-solving attitude (PSA)

As shown in figure 6.2 possession of PSA in sino-foreign joint venture negotiation is the only similarity between the Chinese and the Western negotiators. The use of PSA by Western negotiators on intra-cultural negotiation is widely discussed in existing literature (Karass 1970, Spector 1978, Graham et al 1986). The Western negotiator’s use of PSA in Sino-foreign joint venture negotiation was confirmed in chapter 5 of this thesis. This PSA is the second component in the negotiation pillar in figure 5.37 of chapter 5.

The PSA provide courage and motivation to both Western and Chinese negotiators to solve perceived problems in the joint venture. These perceived problems include joint venture capital, duration of the joint venture, potential profit, sales, material procurement, management structure which are extensively discussed in section 5.2 and 5.6 of chapter 5. Both parties solve these problems based on collection and exchanging of information during negotiation.
6.4.3 Summary

Section 6.4 compares and contrasts the differences and similarity between Chinese and Western joint venture negotiation. Differences in Western and Chinese joint venture negotiation are found in the areas of strategic context and negotiating culture. Similarity is found in the area of problem-solving attitude.

Whilst foreign firms formulate their negotiation approach according to the unique Chinese strategic context, fundamental business problems such as joint venture capital amount, duration of the joint ventures, management structure must still hold because foreign firms must report their business performance to their business shareholders. The problem-solving attitude provides courage and motivation to negotiators of both parties to solve these business problems. The mutual appreciation of the Chinese cultural elements i.e. guanxi, face, reciprocity, renqing and trust allow negotiators of both sides to establish a long-term relationship which helps them solve problems emanating from this unique Chinese strategic context.

6.5 THE DEFINITIVE SINO-FOREIGN JOINT VENTURE NEGOTIATION MODEL

The discussion in section 6.4 prompts the author of this thesis to confirm the model modified in figure 5.36 and its associated strategies in figure 5.37.

Readers may argue that the model presented in figure 5.36 and 5.37 is applicable to other communist countries and therefore it is not a unique model to Sino-foreign joint venture negotiation. This argument can be explained by looking at the characteristics of these communist countries. Before 1990, there were six major communist countries in the world, i.e. Soviet Union, China, Vietnam, North Korea, East Germany, Cuba. However, after the Soviet Union disintegrated and East Germany reunited with West Germany in the early 1990s, only four communist countries survived, i.e. China, Vietnam, Cuba, and North Korea. However, Cuba, Vietnam and North Korea are not comparable to the vast Chinese market. In terms of population, China has one quarter of the world population that presents one of the most challenging environments to foreign firms (Buttery and Leung 1998). Also, section 5.2 in chapter 5 confirmed that “general economic growth” was the most important consideration for foreign firms in this study to enter the Chinese market. China’s huge population, together with its economic growth generates an extremely attractive market to foreign firms. This huge market potential initiates foreign firms and hence their negotiators to equip themselves with problem-solving attitude (PSA) to solve marketing problems i.e. investment amount, sales, management structure as discussed in section 5.3 and 5.6 in chapter 5 in the Chinese market. This huge market potential alone makes the Chinese strategic context so different from Vietnam, Cuba and North Korea which have far less population than China.
Another important aspect of the Sino-foreign joint venture negotiation model is the relationship component in the negotiation pillar in figure 5.36. The cultural elements, "guanxi", "face", "reciprocity", "renqing" and "trust" are unique to China and they cannot be applied to other economies such as Vietnam, Cuba and North Korea (Pye 1982 and 1986; Mente 1992; Leung and Yeung 1995; Leung et al 1995, Davies et al 1995; Tsang 1993; Tsang 1998; Leung 1997; Buttery and Leung 1998).

In summary, the huge market potential and the unique Chinese cultural elements on the Sino-foreign joint venture negotiation model confirms the modified model in figures 5.36 and 5.37 is definitive and unique to the Chinese market.

The definitive Sino-foreign joint venture negotiation model is presented in figure 6.3 and its associated strategies are depicted in figure 6.4 below.

**Figure 6.3**  
A modified sino-foreign joint venture negotiation model  
A modified sino-foreign joint venture negotiation model showing a system approach for foreign firm to enter the Chinese market.
Figure 6.4  The modified strategies used by party A (Western) are shown from stage 1A to 5A.
The strategies proposed for the Chinese party in sino-foreign joint venture negotiation are rendered for future research.

1A Pre-negotiation stage
Foreign party
- Organization objectives
  - Identification of PRC bureaucratic structure
  - Identification of common marketing and financial goals
- Personal objectives
  - Identification of PRC negotiators' goals
- Etiquette
  - Eating and drinking

2A Negotiation stage
Foreign party
- Strategies
  - Collaborating
  - Compromising
  - Perceptions on PRC negotiators' strategies and respond
  - USP of offerings
  - Patience
  - Clarifying important issues

3A Post-negotiation stage
Foreign party
- Strategies
  - Closely monitor economic & political development
  - Patience
  - Closely follow own company's goals/objectives
  - Signing of letter of intent

4A Contract-signing stage
Foreign party
- Strategies
  - Patience
  - Closely follow own company objectives
  - Thoroughly check the contract terms against company policies

5A Post-contract signing stage
Foreign party
- Strategies
  - Communicate with PRC governments to obtain implementation licenses

1B Pre-negotiation stage
Chinese party

2B Negotiation stage
Chinese party
- Strategies
  - Collaborating
  - Competing
  - Accommodating
  - Avoiding
  - Compromising
  - Manipulation of time
  - Creation of tension

3B Post-negotiation stage
Chinese party
- Strategies
  - Feasibility study
  - Re-negotiation

4B Contract-signing stage
Chinese party
- Strategy
  - Re-negotiation

5B Post-contract signing stage
Chinese party
- Strategies
  - Re-negotiation
6.6 LIMITATIONS OF THE SINO FOREIGN JOINT VENTURE NEGOTIATION MODEL

The limitations of this study have already been briefly discussed in chapter 1 and readers are reminded to note these limitations in this section to properly use of the research findings.

6.6.1 Outside-in prospective

Conducting research in China, as explained in chapter 1, will be very time consuming. For example, the approval for a research permit in China takes about 6 month (Yau 1994). Also, the Hong Kong Polytechnic University only provides a very limited budget to the author of this thesis to conduct this study on a part-time basis. Therefore, the time and resource limitations confined the author to purely investigate Sino-foreign joint venture negotiation from the outside-in or foreign negotiators’ perspective rather than from the inside-out or Chinese negotiators’ prospective.

6.6.2 Type and country of origin of the firm under study

No restriction was imposed on the country of origin and the industry types of firms in this research because of the intention of the author of this thesis to generalise the research findings to other industries that negotiate joint venture projects with their Chinese counterparts.

6.6.3 Sample size

Yin (1994) notes that the use of six to ten cases are able to generate compelling evidence to a social phenomenon. Because of limitation in time and resources as mentioned in 6.6.1, the number of firms in the case study method was limited to seven, six for literal replication and one for theoretical replication. However, sample size should be increased to 10 in future research of the same topic if time and resources permit to generate more in-depth analysis.

6.7 SUGGESTIONS FOR FURTHER RESEARCH

The author of this thesis would like to recommend the following research directions for future research in the Sino-foreign joint venture negotiation area.
6.7.1 Inside-out perspective

This study looks at Sino-foreign joint venture negotiation from the inside-out or foreign firm’s perspective. Further research should concentrate on the inside-out or Chinese partner’s perspective in establishing Sino-foreign joint venture. Areas of investigation should be concentrated on the Chinese organisational constraints, Chinese negotiation strategies and Chinese perceptions on negotiation outcomes. These areas are important for foreign companies to formulate their joint venture negotiation approach.

6.7.2 Management and negotiation

In future research, the Western management thinking and practice, at both philosophical and functional levels, should be investigated to see whether they are suitable to the Chinese strategic environment (Fan 1996). This is important for the Chinese and foreign partner to achieve a compromise in the joint venture establishment. Purely implementing a Western management concept in a Sino-foreign joint venture may disappoint both the Chinese and foreign party. The success of the Beijing Jeep Corporation is because the management has compromised on its format of operation. Hendrix (1986) concluded that Beijing Jeep Corporation which is a joint venture between Beijing Jeep and American Motor Corporation (AMC) is basically a State-Owned Enterprise with a Western name.

6.7.3 Cross-cultural negotiation

Culture has a profound impact on international joint venture negotiation (Fan 1996). Many of the problems and obstacles in international joint ventures have their roots in cross-cultural communication and understanding. As Pye (1982, p.23) argued: “unquestionably the largest and possibly the most intractable category of problems in Sino-American business negotiations can be traced to cultural differences between the two countries.” Therefore, culture is definitely an important area for future research.

Some distinctive Chinese cultural elements in the Chinese bureaucracy warrant attention. Patrimonialism (Weber 1951), paternalism (Ho and Lee 1974), Confucianism (Yang 1959, Hofstede and Bond 1988) and harmony (Redding 1993) are important characteristic in the Chinese bureaucracy that require extensive research because they will influence the type of approach and speed of progress of Sino-foreign joint venture negotiation. For example, these cultural elements will influence the Chinese decision-making pattern in a Sino-foreign joint venture negotiation.
6.7.4 China looking out

Presently, all the Sino-foreign joint venture negotiation studies concentrate on the Chinese market because of its vast market potential. In the future, research direction should look at the internationalisation process of the Chinese firms when their product qualities are up to international standards. By that time, Chinese firms will be strong potential investors in the international market. Therefore, research direction should be re-directed to a "China seeking-out" perspective. According to Keegan (1995), China will become the world third largest economy in the year 2005 and therefore China will surely achieve an investor role in the not too far future.

6.8 CHAPTER CONCLUSION

This chapter has set off to achieve six objectives given in section 6.1.2:

- To provide recommendations to foreign negotiations on sino-foreign joint venture negotiation;
- To compare the joint venture negotiation context between China and major Western countries;
- To establish a definitive Sino-foreign joint venture negotiation model;
- To elaborate the major contributions of this thesis; and
- To provide insights on future research in the area of Sino-foreign joint venture negotiation.

The author has achieved these objectives and would like to conclude them in this section.

6.8.1 Recommendation

The author would like to give the following recommendations based on the research findings. Foreign firms should consider the recommendations in the following areas:

Unique Selling Proposition (USP)

- Considering the potential contributions of the proposed joint venture such as technology transfer, recreation of employment, and upgrading the quality of Chinese workers through training whilst avoiding direct competition with local state owned enterprises;
- Helping the Chinese government to restructure a particular industry through effective integration of loss-making factories; and
- Aiding the Chinese government to improve industry standard through technology leadership.
Environmental contexts

- Selecting a good location for joint venture establishment. This location is characterised by 1) essential infrastructure support for the ventures, 2) high market potentials, and 3) strategic implication on improving market shares in a highly competitive market;
- Treating China as a future potential market for their products and services and not as a production base because labour cost will increase due to economic growth;
- Monitoring the change in the Chinese legal system and respond because the change will have implication on change in company policy;
- Studying the joint venture contract very carefully because court actions will be the final place for resolution if mediation between the two parties fails; and
- Recognising the differences between the Chinese and the Western legal system rather than attempting changing the Chinese legal system because the action will not be tolerated by the Chinese leaders under the political administrative system.

Organisational context

- Identify the bureaucratic structure of their Chinese joint venture partners to help them uncover the decision maker within that Chinese organisation; and
- Treat China as a distinctive market and establish an SBU so as to react quickly to the market needs.

Connection

- Establishing connection or relationship in China because it can cut through all the bureaucratic red tapes and provide valuable information such as financial situations of Chinese partners to the foreign firms.

Chinese joint venture negotiation process

At the pre-negotiation stage

- Identify the Chinese organisation bureaucratic structure in private meetings to avoid potential conflict in formal meeting;
- Recognise the Chinese negotiators' private goals during banquet and try to fulfil them within the legal limits to smooth out the negotiation progress; and
- Determine common financial and marketing objectives of both parties that are one of the basic foundations of joint venture negotiation.
At the negotiation stage

- Adapting a collaborative attitude is a good way of achieving a win/win situation.
- Patience is important to solve problems.
- Taking break in deadlock situation provides chances to resolve difference in informal meetings.

At the post-negotiation stage

- The Chinese may want to change the agreed terms in response to changes in economic policy. Trade-off the Chinese requests for amendment of contract terms in one area with better terms in another area of the contract.
- Studying the implications of these policy changes on the joint venture is beneficial to the foreign negotiators.

Contract-signing stage

- Monitor and check changes on contract terms very careful to avoid conflict in the future.

Post-contract signing stage

- Monitor changes on signed contract and attempt to maintain harmony at all times; and
- Go for higher level negotiation will cause the Chinese to lose face and therefore it is absolutely not advisable.

Joint venture negotiation pillar

- Establishing guanxi with the Chinese negotiators through having banquets or company visits;
- Avoiding direct argument and attempting to clarify issues through private meetings to maintain face;
- Activating modest and genuine open discussion can gain face and trust from the Chinese negotiators;
- Initiating appropriate donation and material procurement from domestic supplier may be reciprocated by the Chinese Government to introduce qualified Chinese partner to the foreign firm;
- Establishing long-term association and maintaining tight co-operation with Chinese ministries can build up trust; and
- Collecting and exchanging information with the Chinese negotiators will certainly help consolidate the problem-solving attitude (PSA) of the two parties.
Joint venture outcome

- Adapting a long-term strategy in China that includes provision of human resource training to local personnel and procurement of materials from domestic suppliers will eventually earn handsome joint venture performance.

6.8.2 Comparison of joint venture negotiation context between China and Western countries

Differences in Western and Chinese joint venture negotiation were found in the areas of strategic context and negotiating culture. Similarity was found in the area of problem-solving attitude.

Whilst foreign firms formulate their negotiation strategies according to the unique Chinese strategic context, fundamental business problems such as joint venture capital amount, duration of the joint ventures, management structure must still hold because foreign firms must report their business performance to their business share holders. The problem-solving attitude provides courage and motivation to negotiators of both parties to solve these business problems. The mutual appreciation of the Chinese cultural elements i.e. guanxi, face, reciprocity, renqing and trust allow negotiators of both sides to establish a long-term relationship which help them solve problems in this unique Chinese strategic context.

6.8.3 The definitive Sino-foreign joint venture negotiation model

The author of this thesis now has complete confidence to conclude the Sino-foreign joint venture negotiation model is valid and unique to China based on the following findings:

- The within-case analyses in chapter 5 indicated the Sino-foreign joint venture negotiation model is valid;
- The identification of major differences in strategic context and negotiating culture between the West and the Chinese in section 6.4 indicated the Sino-foreign joint venture negotiation model is unique to China; and
- The recognition of the huge market potential and the unique Chinese cultural elements in section 6.5 on the Sino-foreign joint venture negotiation model makes the Sino-foreign joint venture so distinctive from other communist countries, i.e. Vietnam, Cuba, North Korea.

The definitive Sino-foreign joint venture negotiation model is given in figure 6.3 and its associated strategies are shown on figure 6.4 of this chapter.
6.8.4 Major contribution of the thesis

This thesis conceptualises a holistic approach to Sino-foreign joint venture negotiation. It starts from the very beginning of a foreign firm’s internationalisation process to the Chinese market (its strategic environment) through the evaluation of organisational constraints to the Sino-foreign negotiation process and ending up with the evaluation of joint venture performance.

It proposes a systematic approach to Sino-foreign joint venture negotiation. In implementing this systematic approach, foreign firms must carefully monitor the economic development in the Chinese economy because the Chinese leaders amend legal procedures and requirements of joint venture establishment according to the Chinese economic development.

It recognises that joint venture negotiation between the West and the Chinese needs a supporting negotiating pillar that consists of the unique Chinese cultural elements and the problem-solving attitude (PSA) to facilitate tight co-operation between the Chinese and foreign party.

It builds a unique sino-foreign joint venture negotiation model that has been proved as valid and unique in sections 6.4 and 6.5 of this chapter.

It advocates the relationship-marketing paradigm in Sino-foreign joint venture negotiation.

It helps academia to recognise the internationalisation of foreign firms into the Chinese market.

6.8.5 Limitations of the Sino-foreign joint venture negotiation model

This research has three limitations: 1) inside-out prospective, 2) types and country of origin of the firm under study and 3) sample size. Their full explanations are given in section 6.6 of this chapter.

6.8.6 Suggestions for further research

Future research should look at the Sino-foreign joint venture negotiation from 1) an inside-out prospective, 2) management and negotiation, 3) cross-cultural negotiation, and 4) China looking out. Their full explanations have been given in section 6.7.
6.9 THESIS CONCLUSION

The rapid economic development and the opening up of the Chinese market encouraged the author of this thesis to familiarise the readers with a joint venture negotiation model within a Chinese strategic context. Its attempt is to provide foreign negotiators with a systematic approach to joint venture negotiation in China with strategic issues and context in their international negotiation plan in China.

Chapter one

An introduction of Chinese joint venture negotiation was given in chapter one. Based on the preliminary literature review in chapter 1, a research problem was defined.

Chapter two

To facilitate the development of a preliminary Sino-foreign joint venture negotiation model, the author of this thesis first developed a definition on Sino-foreign joint venture and a classification model (Perry 1994). Based on this definition and the classification model, he then compared the differences between the West and the Chinese on joint venture negotiation based on the four constructs developed in this definition, i.e. environmental context, organisational context, negotiation process and negotiation culture. During the process of this in-depth literature review, research questions emerged and a preliminary Sino-foreign joint venture model was established. Research gaps were also identified to justify the purpose of this study.

Chapter 3

This is the methodology chapter to identify available research strategies, and the rationale for using case study method was justified. The quality assurance system was also defined to ensure the proper conduct of this study. Five in-depth interviews were conducted to investigate the validity of the Sino-foreign joint venture negotiation model, and the research protocol contained the research guide and research questions developed in chapter 2 was pilot tested with Hong Kong Beijing Air Catering Company Ltd. The results of the in-depth interview and the pilot test motivated the author of this thesis to carry out fieldwork on 7 case study (6 literal and 1 theoretical replication) which is the minimum requirement for a PhD according to Yin (1993).

Chapter 4

This chapter presented the summaries of all seven case studies. The convergent evidence of the 6 literal replications and their contrast to the theoretical replication in the within-case analyses motivated the author of this thesis to do the cross-case analysis in chapter 5.
Chapter 5

The cross-case analysis in this chapter indicated that the Sino-foreign joint venture negotiation model was valid. The author of this thesis also answered the research questions developed in chapter 2 and provided major findings of the whole study.

Chapter 6

The final chapter gave recommendations to foreign negotiators on their joint venture negotiation in China. It also established a definitive Sino-foreign joint venture negotiation model in figures 6.3 and 6.4. The author of this thesis also presented the contributions of this thesis that closed the research gaps identified in chapter 2. Limitations of this research and suggestions for future research directions were also identified.

The major contribution of the whole thesis is:

Sino-foreign joint venture negotiation is a holistic process that starts from a foreign firm’s appreciation of the international environment. After this foreign firm recognises the vast market potential of the Chinese market, this firm’s main concern is the political stability of this market. Provided these two factors are positive, this firm will permit compromise on other factors within China’s strategic environment such as the Chinese bureaucratic procedures in its legal system and then attempt to negotiate a joint venture with their Chinese counterpart. During the whole negotiation process, there are three aspects that this firm must be aware of. First, the whole negotiation process is hindered by the Chinese legal system of establishing joint venture. Second, Chinese culture must be recognised. Third, negotiators must equip themselves with problem solving attitude (PSA). The appreciation of Chinese culture and the possession of PSA provide foreign negotiators of this firm with the courage and motivation to formulate strategies and negotiate through the whole process under a unique Chinese strategic environment. This strategic environment again requires foreign negotiators’ in-depth study to identify potential joint venture projects that are important to the Chinese economy and hence increase the chance of approval by the government of a planned economy.

In summary, the joint venture negotiation between foreign negotiators and their Chinese counterparts must be built on a negotiation platform. This platform consists of:

- An in-depth understanding of the requirement in the Chinese planned economy at the time of negotiation. For example, the present requirement in the Chinese economy is technology-driven under the "four modernisations" program;
- An appreciation of Chinese culture is required to negotiate through the complicated Chinese bureaucratic system. This culture is relationship-driven; and
Chapter 6 - Conclusion and recommendation

- A procession of problem solving attitude (PSA) by both parties is important to provide courage and motivation to go through this Sino-foreign joint venture negotiation process.

This thesis also suggests that basic business objectives such as profit, production efficiency must be incorporated in the negotiation strategies as suggested in the pre-negotiation stage and are maintained throughout the whole Sino-foreign joint venture negotiation process as suggested in figure 6.3 in chapter 6 whilst acknowledging the above platform.

This thesis contributes to the development of international marketing. It conceptualises a holistic approach to Sino-foreign joint venture negotiation. It starts from the very beginning of a foreign firm’s internationalisation process to the Chinese market (its strategic environment) through the evaluation of organisational constraints to the sino-foreign negotiation process and ending up with the evaluation of joint venture performance. It proposes a systematic approach to Sino-foreign joint venture negotiation. In implementing this systematic approach, it recognises that joint venture negotiation between the West and the Chinese need a supporting negotiating pillar that consists of the unique Chinese cultural elements and the problem-solving attitude (PSA) to facilitate tight cooperation between the Chinese and foreign party. It builds a unique Sino-foreign joint venture negotiation model that describes the pattern of joint venture negotiation between foreign negotiators and their Chinese counterparts. It adds understanding to the relationship-marketing paradigm in the international marketing literature.

In this study, the author of this thesis have demonstrated the process of a PhD study through:

- Conceptualisation of a research problem,
- Development of a Sino-foreign joint venture negotiation model with research questions through rigorous procedures,
- Identification of research gaps,
- Implementation of the research process with academic rigor,
- Testing of this Sino-foreign joint venture negotiation model through within-case and cross-case analyses,
- Answering the research questions and the research problem which the author of this thesis initially proposed,
- Provision of a Sino-foreign joint venture negotiation model, research findings and recommendations and future research directions in the same areas, and
- Closing the research gaps that the author identified in existing literature.

In summary, the author of this thesis has successfully demonstrated a thorough and rigorous process of a PhD and therefore future research in the same area is possible.
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APPENDIX A- GLOSSARY OF SPECIAL TERMS

To provide the readers with clear concepts on all Chinese joint venture negotiation aspects, definitions of special terms are listed in this section.

CONFUCIANISM- is a philosophy which was advocated by Confucius (551-479 B.C). Confucius believed that the universe was one organic whole and people should act morally because it was their nature to be ethical (Ogden 1995, p17). Confucianism has been adopted by the kings of many Chinese dynasties since the Warring State (464-222 B.C.) because of its implication to the maintenance of authority i.e. if all people adhered to their social positions and acted morally and hence submissively, the rulers could use minimum force to rule over them on a vast continent.

Confucius proposed some a set of constructs to fulfill the moral requirement of his philosophy. The major elements of this set of constructs are 1) Wu-lun 2) Jen & 3) Chia.

Wu-lun (the five relationships)- this construct consists of two parts "Wu" and "lun". "Wu" means five and "lun" means the proper positioning of mankind within the social and political hierarchy (Lin 1939). The proper positioning of individuals rely upon their vigorous adherence to the roles played within a classical Confucius society. These five "luns" or roles are i.e. father and son, ruler and minister, husband and wife, elder brother and younger brother, and friend and friend.

Jen - this construct means moral excellence and is composed of two parts, "two" and "man" which is interpreted as moral excellence in interpersonal relationships (Lin 1939).

GUANXI- is a term to describe inter-personal relationships which are cultivated through a person’s network of connections.

FACE - means one’s respect, status & moral reputation in a society. It is an image of self delineation in terms of approved social attributes (Goffman 1955). Hu (1944) classifies face into two categories : 1) lien & 2) Mianzi.

Lien- represents the confidence of society in the integrity of one’s ego moral character which is entitled by virtue of that person. It can be lost through misconduct but cannot be gained.
Mianzi - stands for the kind of prestige that is emphasized in a society: a reputation achieved through getting on in life, through success and ostentation.

RENQING - is referred to a resource that an individual can present to another person as a gift in the course of social exchange.

PROBLEM SOLVING ATTITUDE (PSA) - is defined as two parties attempting to improve the joint satisfaction in the outcome resulting from their negotiation process at no loss to either party.

NEGOTIATION - is a settlement process for a transaction between two parties who go through the process of reviewing, planning and analyzing for the resolution of conflict to reach acceptable agreement or compromise. One party has no absolute power over the other side and both parties will adjust their expectation in realistic terms during resolution of conflict. In Chinese joint venture negotiation five negotiation stages can be identified: 1) the pre-negotiation stage, 2) the negotiation stage, 3) the post-negotiation stage, 4) the contract signing stage, and 5) the post contract stage.

Pre-negotiation stage - is a stage that both foreign and Chinese negotiation parties prepare to enter into negotiation for a joint venture project. Preparation may include solicitation of project and market information, setting of marketing and financial objectives for the project, and establishing guanxi between the two parties. Letter of intent will normally be signed to signify the end of this stage. However, some companies prefer to sign this letter of intent at the post negotiation stage.

Negotiation stage - is a stage that is consisted of a number of formal sequential negotiation meetings for the joint venture project. Both parties may reveal their positions and adjust their negotiation strategies in response to the other party's reaction.

Post-negotiation stage - is a stage which both parties amend the feasibility study according to their agreement in the negotiation stage. Business contract, technology transfer contract and some other related contracts will be prepared at this stage for signing. Some companies will also sign the letter of intent at this stage.

Contract-signing stage - is a very critical stage which foreign and Chinese parties sign the contract(s) as staged in the post negotiation stage. It is short but important in a sense that both parties change from a reactive mode to an action mode for the implementation of the joint venture project.

Post contract-signing stage - is the action stage of implementing the joint venture project. However, research shows that negotiations are still carried on changing contract details at this stage.

MINISTRIES WHICH INVOLVE IN ESTABLISHING JOINT VENTURE IN CHINA
Ministry of Foreign Trade and Economic Cooperation (MOFTEC) is the government department in overall charge of all aspects of China's international economic participation. In addition to trade, its areas of responsibility include overseeing and administering foreign investment, administering aid and grants from foreign governments and international organizations, negotiating and implementing bilateral trade treaties with foreign governments and multilateral international treaties and conventions. MOFTEC is also responsible for formulating and implementing regulations related to foreign trade and investment, and drawing up and implementing plans related to foreign trade and investment (Lewis 1994).

DOCUMENTS IN JOINT VENTURE NEGOTIATION

Letter of intent- China is essentially a centralized planning economy. Individual industries, thus, are under the administrative structure of various ministries. These ministries administer their organizations through some smaller administrative unit called danwei. State owned organizations, in order to inform their progress of attracting Direct Foreign Investment (DFI) to their respective danwei, normally sign a document called letter of intent. The letter of intent, therefore, is part of their "home work" to show to their danwei that they are doing some productive work. However, this letter of intent is not a official requirement by MOFTEC. Therefore, some foreign organizations sign this letter of intent at the post-negotiation stage.

The centralized planning nature in China requires a project proposal and a feasibility study to be submitted and obtain approval before negotiation for a joint venture negotiation starts. In other word, they are the documentary outputs at the pre-negotiation stage.

Project proposal- should be jointly prepared by the foreign and the Chinese organizations but submitted by the Chinese party to relevant authority (MOFTEC) to obtain approval. The project item will then listed or established on the Chinese development plan or agenda after the proposal is approved.

Feasibility study - it is an essential document required by MOFTEC to show the joint venture project fits in the development blueprint of the Chinese government under the centralized planning system. It should be jointly prepared by both foreign and Chinese organizations but submitted by the Chinese organization.

After negotiation, various documentary outputs are listed below. These documents appear at either the contract signing stage or the post contract signing stage.
Contract(s) may mean a business contract for a small project or a set of contract which include a business contract, technology transfer contract, logo transfer contract and some related contracts for a complicated project.

Article of Association - specifies the structure of the joint venture. It normally includes the following sections (Brahm 1997):

a) general provisions,
b) purpose and scope of business,
c) the total amount of investment and the registered capital,
d) the board of directors,
e) business management organization,
f) finance and accounting system,
g) profit sharing,
h) staff and worker conditions,
i) the trade union organization, duration, termination and liquidation,
j) rules and regulations, and
k) supplementary articles.

Business license - After the contract(s) are approved and article of Association received, MOFTEC will issue a business license with a license number. Joint venture organization concerned should then register their details with taxation and custom departments and open bank account before the organization starts their operation.
APPENDIX B- CHINESE JOINT VENTURE NEGOTIATION MODEL INTERVIEW SCHEDULE

The following schedule was used as a tool in the in-depth interview. It aimed at qualifying an interviewee’s suitability to receive an interview from the interviewer. It mainly captured the personal and organizational characteristics related to the interviewee.

<table>
<thead>
<tr>
<th>Interview by:</th>
<th>Date:</th>
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<tbody>
<tr>
<td>Place of Interview</td>
<td></td>
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<tr>
<td>How does this respondent recruited</td>
<td></td>
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</table>

**Organization Details**

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Address of organization</td>
</tr>
<tr>
<td>Organization’s main activities (PRC)</td>
</tr>
<tr>
<td>Date organization founded</td>
</tr>
<tr>
<td>Number of employees</td>
</tr>
<tr>
<td>Size of the equity/co-op joint venture</td>
</tr>
</tbody>
</table>

**Interviewee's details**

<table>
<thead>
<tr>
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<th>Estimated age:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address</td>
<td></td>
</tr>
<tr>
<td>Position in organization</td>
<td></td>
</tr>
<tr>
<td>Shareholding or ownership in organization</td>
<td></td>
</tr>
<tr>
<td>Length of employment</td>
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</tr>
</tbody>
</table>

Appendix B-Interview Schedule

In-depth Interview Theme

The following themes gave directions for the interview and mainly followed the findings from the literature review in chapter 2. Open-ended questions were developed under each theme to allow the interviewees freely expressed their opinions concerning Chinese negotiation and its related issues. Open ended questions are useful when the intricacies of an issue are still unknown, in getting unanticipated answers, and for describing the Chinese negotiation as the interviewees see it which always add “depth” and “understanding” to the questionnaire formulation at later stage (Fink, 1995, pp. 15).

Theme 1: The negotiation environment

This theme investigated the interviewee’s perception of the impact of legal/political, economic, social/cultural and technological environment acting upon his/her firm.

1. Does the legal/political environment influence the progress of your firm’s Joint venture / Co-operative venture (delete one) negotiation in the PRC? Would you be kind enough to give an example! Possible probe: describe the MFN status (Most favored Nation) granted by the U.S. to China (PRC) on a year to year basis. (Hung and Wheelen, 1993)

2. Does the economic environment influence the progress of your firm’s Joint venture / Co-operative venture (delete one) negotiation in the PRC? Would you be kind enough to give an example! Possible probe: describe the impact of the recent Macro-economic policy imposed by the Chinese government. (Hung and Wheelen, 1993)

3. Does the social/cultural environment influence the progress of your firm’s Joint venture / Co-operative venture (delete one) negotiation in the PRC? Would you be kind enough to give an example! Possible probe: describe the eating and drinking habits of the PRC negotiators. (Hung and Wheelen, 1993)

4. Does the technological environment influence the progress of your firm’s Joint venture / Co-operative venture (delete one) negotiation in the PRC? Would be kind enough to give an example! Possible probe: describe the technology contribution of Pepsi Cola in the area of bottling technology in China. (Hung and Wheelen, 1993)

Theme two: Specific cultural elements (Guanxi, face, renqing, reciprocity)

This theme investigated the interviewee’s perception of the specific cultural impact on the firms (Part A & B) entering into Joint-venture or Co-operative venture in China (PRC). It attempts to extract the interviewee’s ideas concerning these concepts and also his/her actual experience in applying these concepts.
1. Do you think “Guanxi” is an important cultural element when you conduct negotiation with your counterparts in the PRC? Please name a situation that the “Guanxi” between the negotiation parties is severely affected. Possible probe: describe the “Guanxi” situation of Sammy Lai with China. (Brunner and Taoka, 1977; Lee and Lo, 1988; Yang, 1986; Kwang-kee, 1987; Brunner and Koh, 1988; Brunner et al; Wong and Leung, 1992 and Leung and Yeung, 1995)

2. Is the concept “face” important to Chinese negotiation? Do you think the practice of “giving face” is crucial to negotiation success? How do you “give face” to your counterparts in China (PRC)? Possible probe: describe the situation of Mr. Fok Ying Tong with the Chinese government. (Lin, 1935; Hu, 1944; Ho, 1976; Wilson et al, 1979 & 81; Pye, 1982; Murray, 1983; Hsu, 1981; Greenblatt, 1982; Wong, 1986, Hwang, 1987 and Brunner and Wang, 1989)

3. Is the concept “Renqing” applicable to business negotiation in China (PRC)? Can you sight any example in utilizing this concept? Do your counterparts in China (PRC) give you “Renqing” when you negotiate with them? Possible probe: describe the rule of favor to the interviewee. (Hwang, 1987)


5. For the concept of “reciprocity”, do you think your PRC counterparts will do you a favor if you had helped them before? Possible probe: describe Lee Kai Shing’s investment strategies in the PRC. (Brunner, 1988 and Gould, 1960)

**Theme three Chinese negotiation process**

This section investigated the interviewee’s strategies and his/her perceptions on strategies used by the Chinese negotiators in each stage of the 5-stage Chinese negotiation model. It attempted to confirm the strategies listed on figure 3.8 in Chapter 3 and add new dimension if any to the questionnaire.

1. Before the actual negotiation with your Chinese counterparts begins, what information is required to proceed to the negotiation stage? Possible probe: organization objectives, the perceptions on the Chinese objectives and goals. (Osland, 1989; Mente, 1992; Redding, 1980 and Yung, 1982a and b)

2. Concerning the Chinese negotiators, do you think that they have company (and other objectives in mind at the same time? Please gives examples! Possible probe: 1) joint venture objective such as technology transfer and its associated profit; & 2) a trip to visit Hong Kong. (Fisher and Ury, 1986; Maddux, 1988 and Brahm, 1995)
3. Are drinking and eating important activities before going to formal negotiation? Possible probe: declining an invitation may be perceived as a lose in face by the Chinese! (Mente, 1992 and Brah, 1995)

4. What strategies did you use in a recent joint venturing negotiation assignment with your Chinese counterparts? What strategies did your Chinese counterparts use? Possible probe: Available strategies include Collaborating; Competing; Accommodating; Avoiding; Compromising, Manipulation of time & Creation of tension. (Thomas, 1976; Lampton, 1992; Leung and Yeung, 1995; Brah, 1995; Yan, 1995; Stewart and Keown, 1989)

5. Did the Chinese further negotiate concerning the joint venturing proposal after the formal negotiation finished? How did you react? Possible probe: terms on the proposal.(Brahm, 1995 and Blackman, 1996)

6. After both parties had agreed on the joint venturing proposal and proceed to signing of the contract, what did you do to monitor its development? Did the Chinese side come back for amendment? Possible probe: closely monitored the economic and political development?
   (Brahm, 1995 and Blackman, 1996)

7. After signing of the contract, was there any obstacle to implement the joint venturing plan? If yes, how did you remove the obstacle? Possible probe: bureaucratic procedure is slow in processing the approval. (Brahm, 1995 and Blackman, 1996)

8. In summary, do you think the organizations of both sides exert pressure on the negotiation process? In comparison, which negotiation side has more flexibility throughout the negotiation process? Possible probe: can you or the Chinese negotiators change some contents like terms of the contract on the spot? (Hofstede, 1980)
APPENDIX C - A PILOT TEST HONG KONG BEIJING AIR CATERING LTD.\textsuperscript{1}

**Background**

Hong Kong Beijing Air Catering Co Ltd. (HKBAC) was a joint venture established by Ms Annie Wu Suk-ching and the Beijing Bureau of Civil Aviation Administration. Because it was the first sino-foreign joint venture which may serve as a showcase to subsequent foreign venture, it was inaugurated in 1980 by then Shanghai cadre Jiang Zemin.\textsuperscript{1} In 1995, this company employed over 5,000 people in their factory to produce food for all major airlines which have air-carriers landed on the Beijing international airport.\textsuperscript{11}

Ms Annie Wu, using Hong Kong Beijing Air Catering Ltd. as a holding company, has established fifteen other catering related joint ventures in China. Their most recent joint venture project which was established in 1995 is a co-operative joint venture with a State Owned factory, Beijing Cereal and Oil Co with a capitalization of under US$ 5 millions. HKBAC has controlling interest in this venture. Mr Patrick Pang referred his negotiation experience to this joint venture because this was the only venture he involved in the actual negotiation.

The fundamental basis for this joint venture was the injection of capital to this badly run State-Owned Enterprise and the acquisition of its production facilities by the foreign party and profit sharing by the Chinese party. On this basis, the foreign party could access the Beijing instant market and the Chinese party could solve their financial difficulty.

**ENVIRONMENTAL INFLUENCE ON THE NEGOTIATION PROCESS**

**Motives of Joint Venture (JV) in China**

According to Mr. Pang, their motives for this joint venture were to make profit and to access the huge market potential in the Chinese market. The PRC partner's incentives were to improve their efficiency; to procure capital resources and to show performance to their belonging ministry.

**Background of the PRC partner**

\textsuperscript{1} The preparation of this case was based on an interview with Mr. Pang, General Manager of Hong Kong Beijing Air Catering Ltd. and articles cited at the reference section of this case.
As mentioned in section 2.3.2 of this thesis, "danwei" constitutes the basic organization unit of the contemporary Chinese society. Beijing Cereal and Oil Co., before they joint venture with Hong Kong Beijing Air Catering Ltd., was a warehouse operation which was being attached to a particular danwei in Beijing. This danwei required them to feed approximately 1,500 people. In order to provide jobs to all people within this warehouse, their management turned it into a production house of instant noodle. However, they lacked distribution channel to sell their noodle and therefore this factory had been operating at a loss. Mr. Pang remarked: "They will definitely run the business at a loss. They actually lack of in-depth planning when they converted this warehouse into a production house... Once they think they have space and compatible machinery, they converted it into production without thinking of how to sell their products! The major problem, however, is that one third of the people there are semi-retired, one third of them are administrators and only one third are real workers in that warehouse! It is hard for them to find ways to feed their own people!"

The Chinese government departments involved

As mentioned in section 2.7.2, the local MOFTEC entrusted office, the State Planning Commission and other government officials at city level were involved in the approval process. Because Beijing city is under direct supervision from the central government, their approval did not attract higher order authority.

The environmental pressure

Hong Kong Beijing Air is basically a Sino-Hong Kong joint venture which started their investment in the early 1980s. Their boss, Ms Annie Wu Shuk-ching is a member of the National People’s Representative Committee which, in theory, has the authority to directly report to the State Council. Also, Mr. Pang is an ethnic Chinese who processes a lot of China trade experience. With these strong political background, Mr. Pang seldom encountered any political uncertainty and cultural problem when he negotiated in China.

Mr. Pang admitted that eating and drinking is still an important etiquette to conduct business negotiation in China. Nevertheless, the extent of using this etiquette to having enjoyment by the Chinese is not as psychotic as before. As Mr. Pang comments: "I have seen a lot of businessmen who went into China and provided dinners and lunches to those who called themselves Chinese officials. Actually, they were not qualified to conduct negotiation. They may be only able to refer their intentions to some other people...However, it is not as serious as 10 years ago. In fact, I find Beijing officials are more business like than their counterparts in the South. Sometimes, they pay the food bills to entertain their potential foreign parties!"
ORGANIZATIONAL CONSTRAINTS ON NEGOTIATOR ACTIVITIES

Composition of the negotiation

Mr. Pang, the General Manager of Hong Kong Beijing Air Catering Ltd., was the Chief negotiator of this cooperative joint venture project. He was accompanied by the financial manager and one other personnel. This personnel was either a secretary or a technical person depending on the nature of discussion in a particular meeting.

Degree of autonomy in decision making

Mr. Pang was authorized to make decisions on the expatriates’ expenses and the labor allowances. These decisions had to be made according to local conditions. For example, expatriates’ expenses must be paid as a package. This package includes salary, housing expenses and other allowance like education allowances to the expatriate’s children. The housing expenses and other allowance are heavily depended upon local level of spending. The minimum rate of labor allowances, on contrary, are basically fixed by the Chinese government. The foreign investors, such as the Hong Kong Beijing Air Catering, has a flexibility to increase it depending upon the extent of incentive they want to apply on the local workers.

Technology transfer was not an issue in this cooperative joint venture because manufacturing of instant noodle is low in technology in this case. In addition, the basis of this cooperative joint venture was dominated by financial decisions rather than technical reason. Mr. Pang explained: “There are a lot of state-owned factories which are running into financial difficulties in Beijing. All they want is our capital and our management to run their factories. In fact, they are the landlord and we are the tenant! We are hiring their production line, their space, and their people to do our work!”

Mr. Pang was not authorized to make decisions on investment amount, dividend arrangement, life span of the contract, plant specification and board representation. These decisions must be made through consultation with his boss Ms. Annie Wu Suk-ching because they affect the long term benefits of their company. For example, the life span of the contract is an important issue because it is normally shorter than an equity joint venture as mentioned in section 2.7.1. In saying that, it must be long enough to give profits in addition to the capital invested within a certain period.
Hong Kong Beijing Air Catering Ltd. is essentially an investment firm which specializes in the catering and related businesses without a fixed product category so long as the potential business is in the food sector and it is in the pre-determined geographical area. In this case, they have identified Beijing as a right candidate because 1) it is relatively mature in its legal framework; and 2) it has numerous potential State-Owned enterprises which need injection of working capital.

After they decided Beijing was the right place for investment, their negotiation assignment could be summarized into five areas: a) partner searching; b) qualifying partner; c) information gathering; d) issue identification and e) guanxi building.

Their method of searching partner is significantly different from the west. As Mr. Pang remarked: “If we use similar method as IBM or other multinational firms, our cost for searching a partner is more than ten times as present.” In fact, their search started from the restaurant. Mr. Pang put it this way: “We just talked to a few guys in a restaurant concerning our investment intention in Beijing. These guys then introduced us to our potential partners through their various connections!”

Nevertheless, qualifying their intention was considered to be timely. For example, their PRC partner was not willing to disclose their real reason for the joint venture in formal meetings. “When we met them (the Beijing Cereal and Oil Co.), they claimed that they have good business...but when we visited their warehouse, half of the people there got nothing to do. Then we started to understand its situation!”, Mr. Pang said. In addition, the negotiation team also conversed with their connections in some private meeting and clarified the situation concerning this State-Owned warehouse which actually helped Mr. Pang and his team to identify some important issues.

The identification of these important issues directed Mr. Pang to collect two types of information: 1) the financial situation of this State-Owned Enterprise & 2) the market situation of instant noodle in the Beijing area. The major problem in analyzing the PRC party’s financial status was that their financial
and production figures were messy which made the analyses difficult. The uncertain financial and production status implied that the only option for them to cooperate was to set up co-operative joint venture with legal status so that the accounts of the new venture company could be separated from the previous State-Owned warehouse. In saying that, Mr. Pang and his team also needed to assess their production capacity to give a total picture. The whole idea was to separate Hong Kong Beijing Air Ltd from all hidden liability of this State-Owned warehouse. The analyses on the market situation was relatively more assessable than the State-Owned warehouse because Mr. Pang understood the supply situation in the Beijing area. As he recalled: “we know the number of factories which produce this type of product in this area.”

The information collected enabled Mr. Pang and his team to put forward a proposal to their Chinese counterparts on the possibility of a co-operative joint venture. The core issue of this co-operative joint venture proposal was to sale the landlord and tenant relationship. By means of a co-operative JV, the PRC partner would contribute their existing production line and factory and Mr. Pang’s company would contribute the capital to keep the factory running.

Guanxi building was the last but important activity before they conducted the formal negotiation with their PRC counterparts. The guanxi building process included familiarization with their PRC counterparts in private meetings. More interestingly, they explained the major issues i.e. landlord/tenant relationship issue on their proposal to their PRC counterparts in these private meetings which were largely conducted in restaurants. These actions could indirectly tell them their warehouse was badly run and therefore give them face (mianzi).

After they agreed on the basic principle of landlord/tenant relationship, they signed the letter of intent. Mr. Pang, however, gave an interesting comment on this document : “Everybody knows that letter of intent is just a piece of paper...they just want us to sign it so that they can submit it to their danwei to prove they are doing something to save it!” Also, they finished the feasibility study and submitted both it together with their proposal to MOFTEC, the State Planning Commission, relevant ministries as mentioned on figure 2.2 for approval.

**Formal negotiation stage**

During the formal negotiation stage, their Chinese counterparts played around with the approval process by mentioning that certain clauses proposed would not be approved by the Chinese authority. When this happened, Mr. Pang skillfully used his boss political background. As Mr. Pang put it: “When I mentioned that I have to go back to my boss Ms Annie Wu who is a member of the National People’s Representative Committee, they will find a way out themselves by saying something else!”
Another pressure exerted by their Chinese counterparts was that they expected the foreign party to help them by investing more but earning a bit less in a short term because of their present economic difficulty in China. They also perceived that the foreign party is richer and therefore they should more flexible in a short term and earn profit on a long term and friendly basis. Mr. expressed his position: “I can put the PRC chief negotiator as factory manager and pay them Rmb $ 3,000 which is quite high in China even we don’t expect him to do much. But I told them we need a reasonable return on our investment. In saying that, I mean 18 to 20%”

Another characteristic in negotiating with the Chinese was that they want to press for quick response and decisions from the foreign team. When this happened, Mr. Pang just told them that he had to talk to his boss Ms Wu in Hong Kong. This strategy, in fact, was an effective one to obtain more favorable terms in some occasions.

In addition to the characteristic of pressing for quick decision, the PRC negotiators always gave some indications which may not be able to materialize. As Mr. Pang put it: “they like giving empty promises!” These promises, however, so often turned out to be faulty which will be described in later section of this case.

Mr. Pang and his team members, in order to clarify issues, needed to travel Hong Kong and China and intended to bring the two parties together. As expected by Mr. Pang: “you have to be patient when you negotiate a project in China! Rushing into it is not a good thing to do!”

Post-negotiation stage

At this stage, both parties have to amend the feasibility study, the business contract and the Article of Association for government approval. However, the Chinese team in some occasions, played around with the approval process and intended to change the terms which had been agreed by saying that the department would reject their application. When this happened, Mr. Pang would have dinner with them. Mr. Pang would also bring some influential persons in China with him and introduced them to their PRC partners. As Mr. Pang described: “I just bring some big heads with me and they know them!” After this introduction, the PRC partner would become more attentive and reasonable. In addition, Mr. Pang emphasized: “you can find many factories running into financial difficulty in Beijing and hence you have no point to back off!” In saying that, Mr. Pang followed their underlying objective in an economic scenario to their favor i.e. to structure the venture in the form of landlord/tenant format.

The Contract signing stage

At this stage, both parties signed that contract and started amending the feasibility study and preparing Article of Association to be submitted to MOFTEC entrusted office for approval.
The post contract signing stage

After they had signed the contract with their PRC partner, some problems began to surface. For example, the PRC team promised to have the water and electricity supply arrangements fixed up so that their manufacturing process could start once the contract was signed. However, the above arrangements were not ready. When these happened, Mr. Pang went personally with them to the relevant departments to apply for such arrangements. These actually help the PRC partner to solve their problems. The PRC partner, in one occasion, told an employee at a government department, “you better get this fix up, otherwise this boss from Hong Kong would complain about your efficiency to the central government.” In effect, both team tried their best to ensure most of the terms on the contracts were fulfill. However, the PRC side attempted to change some terms on the contract which were to their favor, for example, the labor allowance. When this happened, Mr. Pang would mention he could not make decision but agreed to refer their request to his boss. The request would disappear after a few indirect rejections.

<table>
<thead>
<tr>
<th>Activities</th>
<th>Difficulties</th>
<th>Documents</th>
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<tbody>
<tr>
<td><strong>Pre-negotiation stage</strong></td>
<td>• searching for partner</td>
<td>• letter of intent</td>
</tr>
<tr>
<td></td>
<td>• qualifying partner</td>
<td>• feasibility study</td>
</tr>
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<td></td>
<td>• information gathering</td>
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<td></td>
<td>• issue identification</td>
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<tr>
<td></td>
<td>• guareti</td>
<td></td>
</tr>
<tr>
<td><strong>Negotiation stage</strong></td>
<td>• anticipate PRC’s strategies and</td>
<td>• nil</td>
</tr>
<tr>
<td></td>
<td>respond</td>
<td></td>
</tr>
<tr>
<td></td>
<td>• defended positioning</td>
<td></td>
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<tr>
<td></td>
<td>• clarifying issues</td>
<td></td>
</tr>
<tr>
<td><strong>Post-negotiation stage</strong></td>
<td>• amended feasibility study</td>
<td>• nil</td>
</tr>
<tr>
<td></td>
<td>• defended positioning</td>
<td></td>
</tr>
<tr>
<td><strong>Contract signing stage</strong></td>
<td>• contract signing</td>
<td>• contract</td>
</tr>
<tr>
<td></td>
<td>• preparation of documents</td>
<td>• feasibility study</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(amended)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Article of Association</td>
</tr>
<tr>
<td><strong>Post contract signing stage</strong></td>
<td>• project implementation</td>
<td>• PRC renegotiated on terms</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• ensure proper operating</td>
</tr>
<tr>
<td></td>
<td></td>
<td>conditions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• nil</td>
</tr>
</tbody>
</table>
NEGOTIATION STRATEGY

Competitor

The PRC partner occasionally mentioned that they were negotiating with another firm for the same joint venture project. Mr. Pang admitted that they may negotiating with another firm! But Mr. Pang simply played deaf which actually saved the face (mianzi) of both parties. Mr. Pang explained: “If they keep on talking to us, they may think we are the best and in that sense we don’t have a competitor.” In fact, the PRC team continued negotiating with them which implied that they had the best offerings. As such, Mr. Pang did not isolate HKBAC from their competitors because they were in a stronger bargaining position than their Chinese counterparts. In addition, they could always find other badly run State-Owned factories in Beijing to start a new negotiation assignment.

Unique Selling Preposition (USP)

HKBAC did not have any USP, as Mr. Pang admitted, besides their financial assistance and proposal of the landlord/tenant relationship putting forward to their Chinese partner. However, the powerful background of Ms Annie Wu is a definitive help in selling the proposal to Beijing Cereal and Oil Co.

Pre-determined strategy

The pre-determined strategy of Mr. Pang and his team was operated on a collaborating (win-win style) platform as the author of this thesis mentioned in section 3.5. Collaborating means that both sides gain benefits from the negotiation. For example, Mr. Pang and his team emphasized on their proposal each side could gain benefits by joint venturing through a landlord/tenant relationship i.e. the PRC party could create employment for their workers and showed performance to their danwei and the foreign party could use their product facilities and had access to the Chinese market.

Obtaining mutual understanding with PRC counterparts

Their mutual understanding was achieved because each party knew exactly what other part’s need through exchange of information and anticipation of the other party’s reaction to certain request. For example, the PRC party requested for a revision on labor allowance as mentioned in the post contract signing stage. However, this type of request disappeared after several rounds of rejection. In addition, the PRC partner’s senior employee i.e. the factory manager and the assistant manager have been receiving salary which are few time bigger than the normal salary in China and therefore their private goals as mentioned in section 3.5.2 of this thesis had been satisfied. These two arrangements were the underlying dimensions to ensure mutual understanding.
CULTURAL ASPECTS OF JOINT VENTURE NEGOTIATION

Mr. Pang felt that the following four cultural elements worked throughout their negotiation with their PRC party.

*Guarxi*

Mr. Pang identified their PRC partner and their background including information such as their financial status via their *guarxi* connections which actually reduced their time for searching a partner in China.

After the right partner, Beijing Cereal and Oil Co has been found, Mr. Pang established a good *guarxi* with the management in this company. Friendship was emphasized in every meeting so that further cooperation became possible. As Mr. Pang emphasized: “Of course it is important or otherwise you can’t even talk to them!”

*Face*

Throughout the negotiation process, HKBAC was in a stronger bargaining position because the PRC party urgently needed capital input from them. However, Mr. Pang and his team would monitor the face (*maoi*) element very carefully by showing that they were not forcing upon them or else the Chinese party would lose face (*maoi*). In addition, they attempted to give face to their Chinese counterparts by inviting them to dinners at their expense. Nevertheless, Mr. Pang emphasized that they would not give things away just because of giving face to their Chinese counterparts.

*Renging*

*Renging* is a social resource that an individual present to another person as a gift in the course of social exchange. It is a set of social norms by which one has to abide in order to get along with other people in Chinese society. Mr. Pang, by putting the existing Factory and Assistant Factory back to their original positions in the new joint venture, fulfilled the *renging* rule in China although he did not really appreciate their capacity. As Mr. Pang admitted: “I don’t really trust them...To me they are just very old fashion government workers who might not know how to run business.” However, putting them on the administrative structure enable HKBAC to maintain social and procedural exchange with other economic institutions within the same network.
Appendix C - Hong Kong Beijing Air Catering Ltd

Reciprocity

The Chinese Factory and Assistant Factory Manager reciprocated their *rénqìng* by helping them on part of the approval process. For example, they accompanied Mr. Pang to go to relevant departments to arrange the water and electricity for their joint venture production requirements.

Trust

As mentioned above, Mr. Pang did not trust the PRC counterparts because their capacities were doubtful. Therefore, he strategically put them in the same positions but with no practical function. To oversee the overall operation of the factory, Mr. Pang sent their own General Manager there.

PROBLEM SOLVING ATTITUDE (PSA)

Information collection

HKBAC collected information directly from their PRC partner which was cross referenced with their own “guanzhu” person who knew this PRC partner within the same social circle. The information was concerning their financial position; their production capacity and their distribution network within the local community.

As mentioned above, this State-Owned factory had been in financial difficulty after HKBAC analyzed the information. Therefore, they proposed a co-operative JV i.e. they would cooperate in the form of landlord/tenant relationship.

Information given to the PRC partner

Mr. Pang provided their objectives of their investment in China including capital amount, profit expectation and life span of the JV. This gave assurance to their Chinese counterpart on the financial ability. He also emphasized the political background of his boss in China so that their Chinese counterpart would respect them.

PRC acceptance on the needs of the foreign partner

The PRC party basically accepted the format of HKBAC to set up this joint venture. However, as mentioned continuously throughout the case, the relationship between HKBAC and this State-Owned factory is landlord/tenant in nature. The PRC partner’s main concern was to create employment for their workers and to show achievement of their management. It implied that the PRC party may accept anything Mr. Pang proposed so long as the plan met the above objectives with a good financial and
employment package. As Mr. Pang pondered: “they may accept our offer but I don’t think that they fully understand why we structure the joint venture that way!” In fact, the strategy of buying up controlling interest in badly run State-Owned Enterprises is widely used by foreign investors. For example, Oei Hong Leong, an Indonesian Chinese investor has, using the same strategy, brought controlling interest in over 200 formerly State-Owned Enterprises and earned handsome profit in the Chinese market."

**Information Exchange with the PRC potential partners**

<table>
<thead>
<tr>
<th>Type of information requirement</th>
<th>Foreign Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• PRC party’s objectives</td>
</tr>
<tr>
<td></td>
<td>• PRC factory production status</td>
</tr>
<tr>
<td>How to collect information</td>
<td>• from PRC organization</td>
</tr>
<tr>
<td></td>
<td>• from guanxi person</td>
</tr>
<tr>
<td>The perception of value of information exchange?</td>
<td>• important</td>
</tr>
</tbody>
</table>

**JOINT VENTURE OUTCOME**

**Overall satisfaction**

The profit performance of HKBAC has exceeded Mr. Pang’s expectation and the profit norm of HKBAC i.e. 18-20%. This higher profit contribution was achievable because of proper management of the factory and the incentive scheme imposed on the production schedule.

The market penetration was also satisfactory. They are presently producing 18,000 kg or 3,000 cases of noodle per day which are being distributed to the local restaurants and retail outlet. These retail outlets have either direct or indirect business relationships with HKBAC. In saying that, they are either existing clients or clients which were introduced by other clients.

Since they have a owner/tenant relationship with their PRC partner, they are operating in the PRC factory without much interference from the Chinese. Therefore, the management of daily work has been pleasant.

Most of the materials are basic products in the PRC and can be sourced in China at competitive price. Because they are distributing their products to the local customers like restaurants. They are well known at the wholesale but not the retail level.

Their intention is to look for potential investment projects in China because the opportunity is there!

To participate in the Chinese market, guanxi is important. Also, political influence is convenience to smooth all bureaucratic procedures.
<table>
<thead>
<tr>
<th></th>
<th>Satisfaction (+/-)</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td>+</td>
<td>• profit exceeds expectation</td>
</tr>
<tr>
<td>Market penetration</td>
<td>+</td>
<td>• production has been in a capacity of 18,000 Kg or 3,000 cases per day which is considered as satisfactory</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• well known in the local area.</td>
</tr>
<tr>
<td>Management experience</td>
<td>+</td>
<td>• management of daily work has been smooth because PRC party's limited involvement.</td>
</tr>
<tr>
<td>Inexpensive product sourcing</td>
<td>+</td>
<td>• most materials can be locally sourced.</td>
</tr>
<tr>
<td>Credibility and reputation</td>
<td>nil</td>
<td>• well known at wholesale level but not at retail level.</td>
</tr>
<tr>
<td>Future investment intention</td>
<td>+</td>
<td>• China market is profitable.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• will continue to invest.</td>
</tr>
<tr>
<td>Learning experience</td>
<td>+</td>
<td>• guanxi is important.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• political influence is important.</td>
</tr>
</tbody>
</table>

Reference:

i "China's First Joint Venture," Asiaweek, Vol. 21, no 41, October 13, 1995

ii ditto

iii Ms Annie Wu Shuk-ching is a powerful member in the Chinese political scene. She is the Deputy Chairperson and Secretary General of the World Trade Centres Association (WTCA) which hosted the trade talks between U.S. Secretary of Commerce William Daley and Chinese Minister Madam Wu Yi of MOFTEC in Hong Kong 28th October 1997; please see Ricky Chung (1997) "SAR to host top Sino-US meeting," South China Morning Post, 11th September 1997 and "World Trade Centers Association launches its Trading Card to help small and medium firms to raise fundings," Hong Kong Economic Times, 10th October, 1997, A7 for details.

iv This figure is confirmed by Annie Wu when she had an interview with Asiaweek. For detail, please see "China's First Joint Venture," Asiaweek, Vol. 21, no 41, October 13, 1995

v Tanzer, Andrew (1993) "Guanxi Spoken here," Forbes, Nov 8, Vol 152, No 11, 210-211
APPENDIX D - THE FINAL CASE STUDY PROTOCOL

A) OVERVIEW

The construction of this protocol is based on the model depicted in figure 3.5 and 3.6 of the thesis. This joint venture negotiation model indicates that Chinese joint venture negotiation is process oriented and both foreign and PRC organizations are being encompassed by the PRC environmental context e.g. the economic, the political/legal, and the technological factors when they enter into joint venture project negotiation. Negotiators of both organizations will subject to influence or pressure from their organizations. In addition, negotiators of both sides must establish rapport basing on the distinctive Chinese cultural elements e.g. guanxi, face, trust, reciprocity and reqing. This rapport is the support or bonding between the two negotiation parties to go through the five stage negotiation process which is proposed by the author of this thesis. They eventually reach a joint outcome. Figure 4.4.2 identifies the strategies foreign and PRC negotiators use in stages of the negotiation process.

B) PURPOSE OF THE STUDY

The main purpose of this protocol is to develop procedures, guideline, and questions for the field investigator to follow and test the comprehensive Joint venture negotiation model between foreign and PRC organizations presented in figure 3.5 and 3.6. Specifically, it investigates the following objectives:

1. What economic, political/legal, and technological factors would influence the negotiation progress;
2. how did foreign organizations influence negotiators' behaviors;
3. how did the joint venture negotiation proceed from one stage to the next;
4. How did the foreign negotiators formulate strategies and how did they respond to their PRC counterparts' strategies;
5. How important were the the Chinese cultural elements e.g. “guanxi”, “face”, “reciprocity”, “reqing” and “trust” to the Joint Venture (JV) negotiation;
6. how Problem Solving Attitude (PSA) e.g. information gathering and need fulfillment help negotiators to negotiate; &
7. how satisfy is the joint venturing (JV) outcome.
To seek organizations to support this case study exercise, an introductory letter was sent to one hundred organizations which were chosen from the membership directory of American Chamber of Commerce in Hong Kong to invite them to participate in this case study research project. These organizations were followed up by courtesy calls. The quota was six which is an essential requirement for a Ph.D. level of study (Yin, 1994). The recruitment exercise ceased once this quota was filled. The settings of these case studies should be conducted in a congenial social environment i.e. cafe, restaurant, informant's home etc. The interviews are of multi-level in nature i.e. the chief and the associate investigators to obtain maximum information relating to the topic of joint venture negotiations.

C) **KEY ISSUES OF THE CASE STUDY PROTOCOL**

This protocol contains procedures, case study questions and analysis plan which the investigator must vigorously follow when the field work is carried out to achieve maximum reliability. This protocol sets a standard for future investigation to pursue similar results. It also addresses implicit issues:

- the field investigator is both the case researcher and the research instrument for this case study. Therefore, the quality of the investigator is of utmost concern. The field investigator must be a negotiator him/herself or an active researcher in Chinese negotiation or both. Without these qualities, the field investigator is not in a position to extract information from the interviewees in an interactive manner.

- the field investigator should not release any important information concerning other organizations to the organization being interviewed as a protection of business ethics. Uncovering of information will not earn respect from the organization being interviewed, it will discredit the reputation of the field investigator because this organization shall expect this field investigator disclosing their information to some other organizations. Therefore, this practice must be strictly prohibited.

- the case study questions must be presented in exactly the same order. This can establish interviewees' mood and motivation to give answers in some logical manner and also shows to the interviewees high standard of professionalism.

- the interviewees are extremely senior personnel within the organization being interviewed. The field investigator's appearance is remarkably important because it is the first impression that the interviewees receive.

These implicit issues must be strictly adhered to when the investigator is carrying out the field work in order to earn the respect from the interviewees and hence the quality of information is higher.
D) FIELD PROCEDURES

Field procedures are essential because case study sites, interviewees and institutions cannot be treated in the same way as in laboratory situations (Yin, 1994). The field investigator must integrate real-world events with the need of data collection plan during the interviews. Other problems include interviewer’s difficulties to cater for the key interviewees’ schedule and availability and interviewees’ unwillingness to fully cooperate to give answers to open ended questions. With this orientation in place, the investigator must explicitly emphasize the importance of the field visit schedule, the preliminary information review, the access procedure verification and the availability of special documents.

1. Preparation of field visit

After an organization agrees to participate in this case study exercise, the investigator must confirm the visit in writing stating the date, the time, and the time needed for the visit so that the interviewee’s reservation of time for the appointment. Before the visit, the interviewers must re-confirm the appointment by courtesy telephone call before the fieldwork. Since this case study attempts to study negotiation behavior at multi-level, the investigator must try to arrange all appointments within that organization in one day to speed up the research. However, if all interviewees within the organization are not available on the same date, separate appointments should be made.

The investigator must review the background information on top of the case study objectives concerning the rationale of the joint venture model. If more information is needed, the literature in chapter 2 must be consulted. In addition, the case study questions must be rehearsed seriously before going to the case study site. These can maximize the mood and the motivation of the investigator.

As mentioned above, the interviewees are the chief and associate negotiators of joint venture projects in the PRC, they normally hold the titles of Senior Manager or above. The investigator must therefore have professional image by preparing enough business cards and any written reply from that organization concerning the interview to qualify for access procedures. Sufficient resources such as pencils, rubbers, paper clips and envelop must be equipped before the interviews. A tape recorder must always be in the resource package and use it if the interviewees allow the conversations to be taped. Any documents concerning the interviewing firms and their Joint Venturing negotiations must be in good order. These can give good impression to the interviewees and research relationship between the interviewer and the interviewees can be developed.
2. **Training of field investigator**

A well-trained and experienced investigator is need to conduct a high-quality case study because of the continuous interaction between the theoretical issues being studied and the data being collected. During data collection, only a more experienced investigator will be able to take advantage of unexpected opportunities rather than being trapped by them—and also to exercise sufficient care against potentially biased procedures (Yin, 1994). The field investigator must process essential skills in questioning, listening and interpreting in addition to the personal qualities of adaptability and being neutral.

**Question-asking**

An inquiring mind is a major prerequisite during data collection that follows a well formulated plan. However, the specific information that may become relevant to a case study is not readily predictable. The field investigator must be able to ask good questions which may be aggregated to generate some meaningful inquiries. These inquiries can help understand the research problems.

**Listening**

Listening includes observing and sensing more generally and is not limited to aural modality (Yin, 1994). Being a good listener means being able to assimilate large amounts of new information without bias. As an interviewee recalls an incident concerning joint venturing negotiation in China, a good listener hears the exact words used by the interviewees, captures mood and affective components, and understands the context from which the interviewee is perceiving the negotiation environment and process and the difficulties they encounter in the PRC.

**Adaptiveness and flexibility**

Very few case studies will finish exactly as planned. A skillful investigator must remember the original purpose of the investigation but then must be willing to change procedures or plans if unanticipated events occur. When a shift occurs, the investigator must be able to remain neutral and note that shift may initiate a totally new investigation. This includes the redesigning of the initial case study. If this perspective is in force, the investigator can inject adaptiveness and flexibility into the case study and yet achieves the criteria of rigor (Yin, 1994).

**Discovery of issues**

The investigator must be able to interpret the information while cooling it. If a source of information contradict with another source of information, additional information may be needed to verify their
reliability (Yin, 1994). The continuous search for additional information leads the investigator to discover the underlying issue surrounding these information.

**Lack of Bias**

The investigator must report the preliminary findings thoroughly and present it to two and three colleagues. The colleagues should offer alternative explanations and suggestions for data collection. If the quest for contrary findings can produce documentable rebuttals, the likelihood of bias will have been reduced (Yin, 1994).

**E) RESEARCH QUESTION PROTOCOL AND OPERATIONALISATION**

The core of the protocol is a set of comprehensive questions addressing the actual inquiry. These questions are being put forward to the investigator to remind him/her on the information him/her must collect. These questions should also be accomplished be the possible sources of evidence. Such sources may include the names of individual interviewees, documents, or observations (Yin, 1994).

**Q 1 Describe the general background of your firm and your joint venture investments in the PRC market.**

*Source of information:*
- Chief negotiator
- Press release, magazines

*Sample Strategies:*
- Describe the general background of the firm in terms of history, product, and world scope;
- Describe the firm investment activities in the PRC market in terms of number of joint venture;
- Describe the general characteristics of these joint ventures in terms of the locations; their products, and number of employment.

**Q 2 What economic, political/legal, and technological factors would influence the joint venture (JV) negotiation process?**

*Sources of information:*
- Chief negotiator
- Press release, magazines
- Chinese Government statistic

*Sample Strategies:*
- List the possible motives of this joint venture (JV) project including economic and technological motives;
• Itemize the Chinese government departments involved in the process and the reasons of their involvement;
• Describe the environmental pressure exert on the foreign organization which may include the pressure coming from the Chinese bureaucratic structure, e.g. macro economic and taxation policies;
• Fill in the following table by ranking the order in which these factors affect the progress of negotiation.

<table>
<thead>
<tr>
<th>Order</th>
<th>Example of influence</th>
<th>Extent of its influence</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social/cultural environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal/political environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological environment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bureaucratic structure</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q3  How did foreign organizations influence negotiator's behavior?

Sources of data:
• Chief negotiator
• Associate negotiator(s)

Sample Strategies:
• Draw organization charts of the foreign negotiation teams;
• List the titles and responsibilities of each members in the negotiation teams;
• Detail the procedures they communicate with their head office;
• To whom the chief negotiator report to?
• What kind of decisions the chief negotiator have to make?
• Under what circumstances that the negotiation team must consult the head office?
• Fill in the following table by ranking the order in which their head office influence their negotiation behavior

<table>
<thead>
<tr>
<th>Type of decision</th>
<th>Who make the decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount each side is investing</td>
<td>H.O.</td>
</tr>
<tr>
<td>Dividend arrangement</td>
<td></td>
</tr>
<tr>
<td>Life span of the contract</td>
<td></td>
</tr>
<tr>
<td>Plant specifications</td>
<td></td>
</tr>
<tr>
<td>Board representation</td>
<td></td>
</tr>
<tr>
<td>Expatriates' expenses</td>
<td></td>
</tr>
<tr>
<td>Labor allowances</td>
<td></td>
</tr>
<tr>
<td>Degree of technology transfer</td>
<td></td>
</tr>
<tr>
<td>H.O- Head Office</td>
<td>GM- General Manager</td>
</tr>
</tbody>
</table>

Q4  How did the joint venture negotiation proceed from one stage to the next?
Sources of data:
- Chief negotiator
- Press release/magazine

Sample Strategies:
- List the activities the foreign firms engaged in the pre-negotiation stage;
- Itemize all documents they had to sign in the pre-negotiation stage;
- Do they have any difficulty when they proceeded to the formal negotiation stage?
- Detail the activities the foreign firms engaged in the negotiation stage including all document concerned;
- Did they encounter any difficulty during the negotiation stage?
- Describe the activities they carried out during the post-negotiation stage including any documentary procedure;
- Did they have any difficulty in this stage?
- Uncover the activities they had in the contract signing stage;
- Did they have any difficulty in this stage?
- Delineate the activities in the post contract signing stage;
- Did they have any difficulty in this stage including the implementation of the Joint Venturing project?
- Fill in the following table after collecting the above information:

<table>
<thead>
<tr>
<th>Stage</th>
<th>Activities</th>
<th>Difficulties</th>
<th>Documents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-negotiation stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Negotiation stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-negotiation stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contract signing stage</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post contract signing stage</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q 5 How did the foreign negotiators formulate strategies and how did they respond to their PRC counterparts’ strategies?

Sources of data:
- Chief negotiator
- Associate negotiator

Sample strategies:
- Did they have any competitor at the time of negotiation? Their names?
- How did they respond to this competitive pressure when the PRC party mentioned their existence.
- How did they isolate themselves from these competitors?
Did they have pre-determined strategies?

How did they formulate their Unique Selling Preposition of their joint venture offering?

Did they use competitive strategies by telling the PRC counterparts that they were negotiating with another PRC organization on same issue?

How did they obtain mutual understanding with their PRC counterparts?

Q.6 How important were the Chinese cultural elements e.g. “guanxi”, “face”, “reciprocity”, “renqing” and “trust” to the Joint Venturing (JV) negotiation?

Sources of data:
- Chief negotiator

Sample strategies:
- How did they come to know their joint venture partner? Through trade exhibition? Through middleman?
- What are the nature of their partnering organization?
- Did they know any Chinese official? What are the official ranking?
- Did they utilize the concept “renqing” and “guanxi” to bring the two parties together? Ask for practical examples which symbols, hero, rituals, and values according to Hofstede’s (1994) definitions.
- How did they go through the process of trust building to proceed to the formal negotiation stage?
- Did they contribute any donation to the Chinese government to build up the “face”?
- How did they maintain the “face” of both parties in confronting situation? Ask for practical examples which symbols, hero, rituals, and values according to Hofstede’s (1994) definitions.
- Did the PRC counterparts reciprocate by doing favor to them? Ask for practical examples which symbols, hero, rituals, and values according to Hofstede’s (1994) definitions.

Q.7 How Problem Solving Attitude (PSA) e.g. information gathering and need fulfillment help negotiators to negotiate?

Sources of data:
- Chief negotiator

Sample Strategies:
- How did they collect information about their PRC counterparts?
- What kind of information did they collect?
- Did they utilize these information to find out the need of the PRC partner?
- Did they fully incorporate the PRC need into the joint venture proposal?
- Did they supply any information to the PRC partner concerning their need in the joint venturing project?
- What kind of information did they give to the PRC partner?
- Did the PRC accept the validity of these need?
• How did both parties resolve the issues arising from different needs of the joint venturing objectives?
• How they both parties evaluate the importance of information exchange?
• Complete the following table after the above information has been collected:

<table>
<thead>
<tr>
<th>Type of information requirement</th>
<th>Foreign Organization</th>
<th>PRC Organization</th>
</tr>
</thead>
<tbody>
<tr>
<td>How to collect information</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Information analysis and incorporate into JV plan</td>
<td></td>
<td></td>
</tr>
<tr>
<td>How to resolve conflict</td>
<td></td>
<td></td>
</tr>
<tr>
<td>The perception of value of information exchange?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Q.8 How satisfy is the joint venturing (JV) outcome?

Sources of data:
• Manager responsible for the Joint venture project
• Chief negotiator

Sample Strategies:
• Determine the objective(s) of the joint venturing project
• Investigate the overall satisfaction level (+/-) for each of the following criteria of this joint venturing project and the possible reason(s):
  a) profit criteria
  b) market penetration
  c) management experience
  d) inexpensive product sourcing base
  e) establishing credibility and reputation in the Chinese market
• Ask for practical examples for each of the above dimensions.
• Investigate their future investment intention in the Chinese market.
• What did they learn from this Chinese joint venture project?
• Complete the following table after collecting above information:

<table>
<thead>
<tr>
<th></th>
<th>Satisfaction (+/-)</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market penetration</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Management experience</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Inexpensive product sourcing</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credibility and reputation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Future investment intention</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Learning experience</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

F) AN OUTLINE FOR THE CASE STUDY REPORT

1. Background of the company
2. Environmental Influence on negotiation process
   • motives of the joint venture
   • background of their PRC JV partner
   • bureaucratic procedure
   • the environment
3. Organizational Constraints on negotiator activities
   • composition of the negotiation team
   • degree of autonomy

4. Negotiation process
   • the pre-negotiation stage
   • the negotiation stage
   • the post-negotiation stage
   • the contract-signing stage
   • the post contract-signing stage

5. Negotiation strategy
   • competitor
   • pre-determined strategies
   • their unique-selling proposition (USP)
   • obtaining mutual understanding with the PRC counterparts

6. Cultural aspect of joint venture negotiation

7. Problem solving attitude (PSA)
   • information given to the PRC partner
   • the PRC acceptance on the needs of the foreign party
   • the importance of information exchange

8. Joint venture outcome
   • overall satisfaction level
   • future investment intention
   • learning experience

9. Within case analyses
   • environmental influence on joint venture negotiation
   • organizational constraints
   • the joint venture negotiation strategies and process
   • joint venture negotiation pillar
   • joint venture outcome

10. Conclusion on joint venture negotiation in China
APPENDIX E  THE CASE STUDY REPORT

In this appendix, the seven individual cases are presented. The order of the cases follows the sampling frame described in Chapter 4 and is shown in Table 1. The first six case studies are theoretical replications and the seventh case study is a literal replication.

<table>
<thead>
<tr>
<th>Case</th>
<th>Organization</th>
<th>Industry</th>
<th>Successful JV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>IBM</td>
<td>Computer and related product</td>
<td>Yes</td>
</tr>
<tr>
<td>2</td>
<td>Otis Elevator International Inc.</td>
<td>Lift and elevator</td>
<td>Yes</td>
</tr>
<tr>
<td>3</td>
<td>Bayer China Ltd.</td>
<td>Chemicals and related products</td>
<td>Yes</td>
</tr>
<tr>
<td>4</td>
<td>Pacific Asia Link Ltd.</td>
<td>Telecommunications</td>
<td>Yes</td>
</tr>
<tr>
<td>5</td>
<td>Synergie Investment Ltd.</td>
<td>Software manufacturing</td>
<td>Yes</td>
</tr>
<tr>
<td>6</td>
<td>Kenwah Enterprises Ltd.</td>
<td>Edible oil and food products</td>
<td>Yes</td>
</tr>
<tr>
<td>7</td>
<td>Donaldson Far East Ltd.</td>
<td>Air Filter</td>
<td>No</td>
</tr>
</tbody>
</table>

Each case is a stand alone case and their findings are formally presented in this appendix. Within case analyses will be conducted for every individual case. The summaries and key findings are contained in Chapter 5 and the analysis of the findings across the sample is presented in Chapter 6.

Each case will be presented and the within case analysis format follows the sequence of the formulation in Chapter 4:
1. Company background
2. How do the economic, political/legal, and technological environments influence the negotiation process;
3. What constraints do foreign organizations impose on negotiators’ behavior;
4. How important are the cultural elements and the Problem Solving Attitude (PSA) throughout the negotiation process;
5. What decisions or strategies do the foreign negotiators used in each stage;
6. How do the foreign negotiators proceed from one stage to the next; &
7. How satisfy is the joint venturing outcome.
Case No 1: International Business Machines Inc. (IBM)¹

"To enter the Chinese market, you need a consistent China Policy."

-Mr. Luis Rodrquez- Director of Greater China Manufacturing Group,

1.1 Background

The computer industry in China started in 1962 by producing slow, limited DJS-1 and DJS-2 models. These models were limited in functional performance and were 10 years behind when compared to the then computer technology in the West. It made reasonable progress, however, when the solid state and the integrated circuits technologies were introduced to the Chinese market in mid-1960s and 1970 respectively. As a result, the domestic computer industry launched a 2 million operation per second (MOPS) machine in 1977, but that was still behind the early International Business Machines (IBM) 370 series.¹ Up until 1983, there were only 100 computer companies in the PRC which accounted for less than 0.1% of the country’s gross national product (GNP).ii

The industry did not really pick up until 1985 when the Chinese leaders realized that computerization of their massive central files in numerous industries was the key to modernization. The then 5 year plan of the Chinese government initiated effort to upgrade its computer industry by importing significant amount of mainframe computers from the westiii in addition to the modernization of the 400,000 factory.iv China soon became the world’s fastest growing computer market. The excitement in the booming factory market has simultaneously been transferred across to the personal market. In 1995, computer sales totaled US $7.4 billion, up 51 % from 1994, and sales of personal computers rose 60% to 1.15 million units. By the year 2000, annual sales are expected to reach 6 million units.v

IBM responded to this favorable Chinese market environment by making inroad to the Chinese market in the early 1990s. The Manufacturing Greater China Group of IBM was established and was headquartered in Beijing, PRC with 2 other offices located in Hong Kong and Taiwan. The group presently has 8 Joint venture in China, i.e. four manufacturing, two software and two network and maintenance services joint ventures. The manufacturing joint ventures are producing Hi tech components, personal computers, POS electronic equipment, banking terminals, printers, heads for the disk drive etc.

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¹ The preparation of this case was based on an interview with Mr. Luis Rodrquez- Director of Manufacturing (Greater China Manufacturing Group), IBM and articles cited at the reference section of this case.
IBM, being one of the most influential multi-national companies with operations in most of the countries on the globe had an annual turnover of US$ 75.9 billion and employed 241,000 people at the end of 1996.\textsuperscript{vi}

1.2 Environmental influence on negotiation process

Motives of Joint Venture (JV) in China

The Chinese market is one of the fastest growth market with gigantic profit potential. The urgent agenda of modernizing its industrial segment on the Chinese government 5 year plan in the late 1980s coupling with the growth of its consumer home market have provided golden opportunity for IBM to increase its global market share and profit significantly. In addition, the inroad of its major competitors such as NEC of Japan and Microsoft of the USA also initiated its entrance to this important market.

In order to access the Chinese market, IBM have been adopting a set of consistent corporate objectives which includes:

1. establishing a significant market share in all market segments to enjoy economies of scales;
2. ensuring IBM have controlling interest in all joint ventures in China i.e. the equity holding must be over 50\% in order for IBM to control its operations. For example, they control 80\% interest of the joint venture which is manufacturing heads for the disk drive; &
3. procuring resources within China as a consolidation of its infra-structure support to the whole company. This could increase the company value chain and hence the overall value to its final customers. For example, IBM purchased US$ 20 millions of parts in 1989\textsuperscript{vii} and it increased to US$ 200 million for the first half year in 1995 alone.\textsuperscript{viii}

Background of their PRC JV partner

The worldwide reputation of IBM forced them to enter the Chinese market with a high profile. In saying that, they identified their potential partners according to the recommendation of the Ministries. Also, they went through their own connections to identify and verify these potential contacts. Mr. Rodriguez admitted: "Well, to penetrate the Chinese market, you to have good planning and contacts...and we have some contacts there!" These two sources of contacts allowed them to locate high quality Chinese partners. However, the identification process was vigorous and took about an average time of six months to find the right partners. This process was considered complicated, nevertheless, it also gave IBM enough time to plan and to analyze the quality of their partners. As a
result, the joint venture partners of IBM included a handful of quality State Owned Enterprises and private enterprises which are being attached to various ministries and local universities.

**Bureaucratic procedure**

In China, state-owned enterprises report their production plan to their respective ministries. For example, an electronic State Owned Enterprise will report their production plan to the Electronic Ministry within that province or city. These ministries can endorse joint venture project which is subsequently approved by MOFTEC. If a foreign organization has connection with a particular ministry and establishes business venture with a State Owned Enterprise under that ministry control, the endorsement of a joint venturing project by that ministry is almost ensured.

According to Chinese law, MOFTEC at central level approve project which is above US$ 30 million. Local MORTEC is charged with the responsibility of approving project which is considered smaller in size or below US$ 30 million. In any case, the project must be registered with the State Planning Commission. Therefore, if an organization joint venture with a State Owned Enterprise which is being attached to a particular ministry and the total investment amount is below US$ 30 million, the involvement of the central government is minimal in a sense that the project is only needed to be filed with the State Planning Commission in the central authority.

IBM skillfully approached various ministries to identify the potential partnering organizations which are being attached to these ministries. This route reduced the red tape of the central bureaucracy. It also allowed them to carefully analyze the needs of their potential partners and matched the need to their company resources and objectives of the joint ventures. For example, one of their Joint Ventures partners is associated with the Ministry of Railroad and three other are being attached to the Ministry of Electronics. In addition, they also actively look for cooperation with local universities for the development of their software packages especially for the Chinese market.

**The environment**

IBM strategic context in the Chinese market can be classified into competitive, legal, and supplied logistic.

**Competition**

IBM sales of its products were under their expectation because of the strong competitive pressure and the under-developed distribution channel in the Chinese market. For example, their sales of PS/2 series of computers have been hampered by its relatively higher price compared to its competitors. To reduce factoring cost and the price of their computers, they have established joint ventures with
Chinese organizations to make components as an infra-structural support to their computer manufacturing in this market. They also formed a co-operative joint venture with one of their strongest competitors Great Wall Computer Group to reduce competition on the one hand and to improve their distribution efficiency in the Chinese market on the other. As a result of their aggressive response to this keen competitive environment, they became the top computer producer in China in 1995.

Legal context

IBM have been lobbying and protesting to the Chinese government on several legal issues, i.e. the trade mark and logo issue, the taxation issue and the internal sales quota issue.

IBM continued protest against serious infringement of copyright on its trade mark and logo by the local firms drove the Chinese government to announce their determination to enforce laws for the protection of intellectual property at an unprecedented press conference in Beijing on March 11, 1989. The State Administration for the industry and Commerce (SAIC) and China’s Trademark office imposed penalties against 5 Chinese enterprises for infringing IBM Corp. registered trademark in China.

Taxation has been another area that IBM has been lobbying. As Mr. Rodrequez explained: “we won’t openly criticize the Chinese Government. What we do is to continue monitoring the Chinese environment and protest to the Chinese Government!” They have been investigating the impact of Taxation Laws on their profit through their accounting process and have been continuing to pursue for favorable terms.

The internal sales quota policy is also a hindrance to IBM market development in China. Internal sales quota policy is a restriction on foreign joint venture to sell fixed amount of their production in the Chinese domestic market. Through this policy, the Chinese government can use the expertise of the foreign firms to upgrade the technological levels of the local firms and the foreign firms can also enter the huge domestic Chinese through this internal quota policy. Normally, foreign joint ventures can sell 30% of their production into the Chinese market. As Mr. Rodrequez said: “we continued protesting to the Chinese government the increase of this quota so that we could have more sell more!”

Product sourcing

The supply of inconsistent quality product has been a major problems in the early 1980s. IBM have been continually targeting at this problem and set up manufacturing joint ventures for the peripheral equipment e.g. the manufacturing of heads for the disk drive. Meantime, they determined to upgrade
their product standard in all their joint venture projects by signing a technology transfer contract with their partners.

In summary, IBM desired to signal to the Chinese government that they are committed to the Chinese market. They have been trying to create a long term and win/win environment in the Chinese market. Patience is important and continuing monitoring of the economic, social/cultural, legal and technological environments are important criteria for long term success.

1.3 Organizational constraints on negotiator activities

Composition of the negotiation team

Normally, IBM formed an ad hoc team which was comprised of 10-12 people when negotiated a joint venture with the PRC organization. The team has both permanent and temporary members. Permanent members included Business Development Manager, Legal expert, and the Finance Manager. Temporary members included other expert (technical) and IBM local personnel. Depending upon the strategic importance of the joint venture, the temporary members may involve different level of executives from the manufacturing group. If the project was considered vital important, the head of the manufacturing group would head the team. This team would normally report to the head of manufacturing group in Hong Kong.

Degree of autonomy in decision making

The consultation of corporate head office was needed on some decisions i.e. extent of technology transfer, life span of the project and dividend arrangement. When the amount of investment was to be increased over the preset limit by 50%, the Board of Directors in the U.S. Corporate Head Office ought to be consulted. Likewise, the IBM Logo was considered as an important asset which needed the corporate head office approval. In the case of Intellectual Property Right and Licensing, they need to consult the Asian Pacific Regional Head Office.

1.4 Negotiation process

The pre-negotiation stage

After the manufacturing group identified a business opportunity in the PRC market, they would collect information concerning that business area. Meantime, they searched for potential partners through the ministry concerned and their contacts in China. As Mr. Rodriguez mentioned: "You
know, the identification process can be a complicated process in China. We need to go through the ministries and our middlemen to get the right partners...and it takes about 6 months to get it!” After both organizations concerned agreed to joint venture, they would sign a letter of intent and submitted application of the joint venture project to the State Planning Commission for consideration of listing on the Chinese planning agenda. If the project listing was approved, formal negotiation could be started. Meantime, they also collected information concerning about their potential Chinese partner through formal and informal meetings. Normally they conducted formal meetings in the Chinese partner’s office and exchange information.

The informal meetings, on the contrary, were carried out in some other occasions. IBM recognized that these informal meetings were important in the process of socialization with their Chinese counterpart to establish guanxi before formally negotiated with them.

Thought the formal and informal meetings with their PRC partners, IBM attempted to recognize the needs of their PRC partners; matched with their own internal resources; and produced a win/win situation for both parties. The perceived scenario which made both parties happy was put on a joint venture proposal.

The negotiation stage

IBM did not mention that they had a legal expert in the negotiation team in the early part of the negotiation stage. Mr. Rodriguez explained: “we did not tell them that because we don’t want to be too isolate from them.” However, this legal expert continued monitoring the legal implications of an issue and formulated their responding strategies. Throughout the negotiation stage, both parties exchanged information and ideas about the joint venture projects and emphasized that co-operation should be based on a win/win scenario and on a long term basis. IBM staffs also listened patiently to the requests of their Chinese counterparts. Mr Rodriguez put it this way: “if their request is reasonable, we will listen!”

The actual time frame was depended upon the nature of the JV which was more related to the complexity rather than the investment amount of the joint venture. They mainly discussed the details of the business aspects of the joint venture e.g. investment amount, specifications, years of co-operation etc. In addition, they would have an in-depth discussion on technology transfer.

According to their experience, the most difficult thing to handle was the negotiation style of the Chinese members. The Chinese negotiators did not want to give direct response to an issue and therefore IBM staffs needed to use probing and questioning techniques to clarify their concerns. A “yes” did not necessarily mean an affirmative answer, it may mean “message received”!. Collective decision making was another aspect of Chinese negotiation. The Chinese team did not openly
identify the decision maker. The identification of decision maker took IBM staffs quite some times to discern.

In some instances, the Chinese negotiation team would use a competitive strategy by mentioning that they were discussing the same project with a competitor of IBM. When that happened, the IBM staffs ignored their claim in a nice manner on the assumption that they are pushing for more favorable terms.

In other occasions, the Chinese would play around with the approval process and claimed that a particular item which was important to IBM would not be approved by the Chinese Government. When this happened, IBM staffs would talk to them concerning the real issue behind this behavior and solve it in some informal meetings.

The post-negotiation stage

After both parties concluded that the joint venture project was feasible, they re-drafted the feasibility study and submitted it to the relevant authorities for approval. This re-draft initiated numerous interactions between IBM and the Chinese party before they agreed on a final version.

The contract signing stage

The PRC team may request changes on the terms of the business contract due to the change in economic environment e.g. Macro economic control. IBM was flexible in changing the terms with some additional conditions. But Mr. Rodriquez admitted: “we won’t give anything away free, We try to take something back! Everything is negotiable in China!” However, the technology transfer contract was inflexible to change because of the vigorous limitations from their US corporate head office.

The post-contract signing stage

They obtained approvals from relevant authorities by submitting the business contract, transfer of technology contracts and the Article of Association and also obtain license from the Company Registrar.

Also, the PRC partner never change the contract terms after it had been signed. Also, they have not encountered any difficult in implementing the joint venture project.
1.5 Negotiating strategy

Competitor

When the PRC negotiators revealed that NEC was one of the IBM competitors in joint venturing project negotiation, the IBM staffs would remain silent and listen to the PRC negotiators’ competitor positioning statement and responded by offering something unique to the Chinese market. For example, the IBM would propose some unique technology which was influential to the development to the Chinese computer market in addition to their worldwide reputation in their industry. Also, the IBM staffs emphasized on their guanxi and their long term commitment in the Chinese market.

Pre-determined strategies

IBM staffs formulated pre-determined strategies according to the company objectives and guidelines before they formally discussed their joint venturing project with their PRC counterparts. For example, they prepared alternative scenarios and fall back positions on some major issues such as technology transfer. In addition, they prepared to give the position of chairmanship to the Chinese as a sign of giving them face. As far as IBM was concerned, a major decision required the approval of the board of directors and therefore this position was nominal in nature. They were determined to obtain the general manager position who was responsible for the daily operations of the joint venture. Mr. Rodriguez explained: “the position of Chairman is nominal but General Manager can oversee our daily interest and make our factories are running properly!” The whole strategic move showed that their corporate objective on controlling interest was being upheld i.e. a major equity share control the board and the general manager direct the operations of the joint venture.

Their Unique Selling Preposition (USP)

IBM attempted to sell their unique offerings in terms of final product qualities and worldwide management skills. Mr. Rodriguez claimed: “we carefully match our internal resources with their needs to produce a win/win situation.” They also explicitly informed their Chinese counterparts that they were not negotiating with other Chinese organization on the same joint venturing projects. These offerings together with the level of technology transfer became the Unique Selling Proposition of IBM.

Obtaining mutual understanding with their PRC counterparts

The staffs of IBM obtained mutual understanding with their Chinese counterparts according to the followings:
Appendix e-The case study reports

1. by carefully matching the needs of the PRC organization with their internal resources, IBM identified a competitive edge and produced a win/win situation of both organizations; &
2. by using the techniques of probing, reasoning and questioning, IBM adjusted their total offerings to their Chinese counterparts.

By exchanging information and conveying their intentions to the Chinese negotiation team, IBM actually produced an effective communication process to initiate mutual understanding.

1.6 Cultural aspects of joint venture negotiation

Over the years, IBM have built up guanxi network with various ministries in the Chinese market. These ministries, in fact, acted as middlemen or connections to identify potential Chinese organizations for IBM to enter the Chinese market. In addition, MOETEC also gave them help in consolidating this guanxi network when they approached them. As a result, IBM have secured some distinguished State Owned Enterprises as their joint venture partners.

IBM also has a good relationship with the local community and they will not openly criticize the local government. For example, their establishment of their Cooperative joint venture, Tianjin Advanced Information Products Corporation (TAIP), was not conditional on the introduction of a copyright law in China although the company obviously hoped to see the law promulgated. In addition, if anything happen to be unfair to them, they will try to solve it through mediation rather than going public or press release because these actions will harm their relationship with the local partner and cause them to lose face.

To consolidate their relationship with the local community, they will try to supplement their need with their spare capacity. In one case, IBM donated one hundred 5550 workstations valued at US$ 1.7 million to Chinese universities. In other case, IBM signed an agreement with the China's State Education Commission on donating computer equipment and related technical support worth US$ 25 million to a group of key universities affiliated with the Commission. In another case, they reciprocated their spare electricity to a local school. Mr. Rodriguez perceived: “these high profile donations can create a driving force to support the operation of IBM in the local community and increase our reputation within the local community...it will reinforce our positioning when the local government wants to have another joint venture. By that time, they will consider us seriously.”

IBM also needed to establish good guanxi with local partners. In saying that, inter-company visits were important activities and long term relationship was emphasized in these visits.

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IBM normally presented gifts to enhance the Mianzi of their guanxi members or Chinese counterparts in appropriate occasions e.g. banquets. Also, they would use every occasion to establish guanxi with their potential partners. As Mr. Rodriguez commented, “If they (the Chinese) like playing golf, we play golf with them!” Also, IBM employed the concept of renging when they approached the Chinese market. The examples of donating computer to local schools and supply spare electricity to hotels as stated above demonstrated that they attempted to maintain guanxi with the local community and to give them some favor. By presenting these resources to the principles of local community, these principles owed IBM renging. When the local State Owned Enterprises searched for new partners for new projects, these principles were in a position to reciprocate favorable comments about IBM if they were in the same social guanxi network.

Besides the gift giving action to give Mianzi to their Chinese counterparts, IBM never confronted them in formal meetings concerning negotiation issues in order to maintain the Mianzi of both parties. When disagreements existed, they would find out the cause and solve the disagreement in some private meetings.

Besides, evidence also shows that IBM understand the concept of reciprocity and consistently use it as a long term strategy in China. For example, their establishment of one of their software joint ventures The International Software Development Corporation (ISDC) in Shenzhen was typically a reciprocity strategy. This software center created a substantial number of technicians trained on IBM computing platform and earn big “corporate citizen” points from the central authorities because of the transfer of technology. Their procurement activities, is another resemblance to this strategy which certainly impresses the central government. In 1990, they brought about US$ 30 million worth of raw materials from the mainland which was a 500% increase over the preceding year.

These cultural tactics allowed IBM to establish a harmonized negotiation environment with their Chinese counterparts and also showed their attitudes of solving problems. Together with their accurate need identification of needs of both parties, these tactics formed the backbone of effective communication. Trust was therefore, built up between them.

1.7 Problem solving attitude (PSA)

Collect information about their PRC counterparts

IBM started their information search mainly from the priority list of the Chinese government which is being published every year. The listed items normally implied the desired level of technology transfer. They identify the potential investment areas of joint venturing projects on this priority list and verify these information from the office in Beijing and through their various guanxi members.
The verification process was essential because the priority list was filtered through numerous layers of bureaucracy and may not be the accuracy reflection of the Chinese leaders' intentions.

The brief description of investment item was the initial preparation for IBM to contact various ministries for a potential PRC partner. After a potential partner was identified, they would study their market situations, their financial background, their production and technical expertise. The combined understandings of the Chinese counterpart and the Chinese government priority provided vital inputs to the proposal of its total offerings which followed IBM internal guideline and policies. Also, IBM also visited the PRC partners' production plant to observe their operations.

**Information given to their PRC partner**

While procuring information from their PRC partner, IBM provided information to them at the same time. Besides major public and essential company data, IBM emphasized on the equity expectation and their commitment to the Chinese market, e.g. market share expectation, technology transfer, and long term growth plan. They also invited them to visit their office in Hong Kong and U.S.A.

**The PRC acceptance on the needs of the foreign party**

Because IBM could precisely match their needs with PRC partner's requirements, the PRC organization accepted the proposal of IBM to a large extent. However, the PRC organization had to observe their role played in the socialist market economy and they made some amendments on their proposal. Through continuous communication, the final solution for the joint venture project compromised the needs of both parties.

**The importance of information exchange**

Both parties valued the importance of information exchange. However, the Chinese did not intent to disclose important information directly and therefore the IBM staffs had to use a lot of probing techniques to find out those information. After IBM collected and analyzed all the essential information, they would ask an outside consultant to conduct a due diligence assignment on the PRC organization before they entered into formal negotiation with them.

**1.8 Joint venture outcome**

Overall satisfaction level:
IBM entered the Chinese market in the early 1980s. Overall the years, they have built up extensive experience in managing joint venture projects in China and these projects are earning handsome profits. Their worldwide experience, superior quality products, and reputable image have also enabled them to deeply penetrate into different segments of the industry.

IBM, have also encountered some problems in the Chinese market in the areas of human resources and material procurement. Mr. Rodrequez mentioned: "we like to see more local personnel to take up management positions in all our joint venture projects in China. Local managers understand local market situations and its culture which substantially improve the efficiency of our company and also reduce cost of keeping expatriate in China...keeping an expatriate there is expensive. I am an expatriate myself and I know it! It costs IBM US$ 500,000 to maintain one expatriate there. It is not difficult to employ software and hardware experts in China. But it is hard to find managers who could communicate effectively in modern management concepts!"

In the material procurement area, IBM admitted that inconsistent product quality supply and non-competitive price quotations have considerable impact on their operations. Nevertheless, IBM will pursue their procurement function with their local suppliers as a support to its corporate objective.

**Future investment intention**

China has become an important market to IBM because of its economic growth. In addition its 1.2 billion population is a definitive consumption indicator on computer and related products and therefore IBM will continue seeking investment opportunities in this market.

IBM estimates that the demand of computers and related products will be increased by US$ 400 billion to US$ 1.2 trillion in the year 2000. About half of that growth-$ 200 billion - will come from the areas of solution and services in network computing.xviii China will be an important market for that growth. For example, their largest sales agent, The Zhonglian Computer (International) Computer Ltd, have signed a contract to supply RMB $2 million worth of network software and hardware to the China Torch Information network.xix

**Learning experience**

When investing in the Chinese market, patience is the key. Special attention must be given to the cultural aspect and bureaucratic nature of this market. A consistent China policy must be employed so the corporate objectives can be achieved with patience and the nature of this market in mind.
Case No 2: Otis Elevator International, Inc.²

"Guanxi is not about corruption. It is a relational concept in which guanxi members mutually contribute their effort to maintain their relationship." - Mr Vincent Kwan, Vice president of Business Development, Otis Elevator International, Inc.

2.1 Background

OTIS is a subsidiary of United Technologies Corporation (UTC) of the United States which has a total group sales of US$ 23 billion at the end of 1995. Otis is a market leader with an annual sales of US$ 4.6 billion which is equivalent to 24% of the market and employed over 50,000 people in 1,700 locations worldwide at the end of 1996. It sells, manufactures and installs over 33,000 elevators and escalators annually, and its mechanics and agent representatives maintain in excess of 700,000 elevators and escalators in virtually every country of the world. The have a total of 24 manufacturing facilities in 15 country. Their business scope is to move people from one place to another with products include escalators, moving sidewalks and shuttle systems.

Otis history can be traced back to 1853 when they invented the first elevator. In 1900, they surprised the market once again by pioneering the first escalator. In 1921, they re-organized the service market by implementing the maintenace contracting system which has been well received from then. Otis' success in the domestic market soon initiated them to participate in the global market place. Today, Otis generates 80% of their revenue outside the States and they control their global businesses via their three regional head quarters 1) North American Operations (NAO) based in Farmington, Connecticut 2) European and Transcontinental Operations (ETO) based in Paris, France and 3) Pacific Asia Operations (PAO) based in Singapore. The China market has been supervised through their Singapore office until Otis China Ltd was established on 9th September 1997 to manage the Chinese market. The PAO region sells more than 14,000 and services 90,000 elevators and escalators in this region annually.

Otis had operated in China, based in Shanghai with a well-established sales and service operation, before the founding of the People's Republic of China in 1949. In 1979 as China once again opened its door to foreign investment, Otis was among the pioneers as it approached the Chinese market to re-establish operations there.

² The preparation of this case was based on an interview with Mr. Vincent Kwan- Vice President of Business Development, Otis Elevator International (PAO), Inc and articles cited at the reference section of this case.
Up until 1997, Otis have established four manufacturing joint ventures in Tianjin, Beijing, Shanghai, and Guangzhou and shares 25% of the Chinese market. They also have over 100 sales offices to distribute their products in the country. Otis China Ltd. in Tainjin is now overseeing the operations of these four joint ventures and these sales offices which have total investment of US$ 110 million. They have received orders for over 5,000 elevators and escalators in 1996 from the Chinese market. All five joint ventures and sales operations employ approximately 5,000 people.

2.2 Environmental influence on the negotiation process

Motives of joint venture (JV) in China

According to Mr. Kwan- Vice President of Business Development of Otis, they have three objectives i.e. profitability, market share and effective market penetration in the Chinese market.

According to Mr. Kwan’s estimates, China will exceed the United States and Japan and become the largest market for elevators and lifts within ten years time. The early entry would enhance Otis’s role as a dominate player and reinforce their position in sharing the profitability in the Chinese market.

Global market share is another important indicator for Otis to measure its performance against its competitors. Their closest competitor, Schindler of Switzerland has been present in the Chinese market since early 1980s which gave pressure to Otis to maintain market share in the important market.

Effective market penetration is another objective for Otis to participate in the Chinese market. They have established manufacturing equity joint ventures in all major strategic cities in China i.e. Tianjin, Beijing, Shanghai, and Guangzhou. These cities are strategically located in the Northern and Southern parts of China and are the most urbanized cities and help Otis market their elevators and lifts. As mentioned, a joint venture holding company has been set up with Citic Development Co. and Tainjin Tai Kang Industrial & Commercial Company to manage its manufacturing joint venture operations in China.

Background of their PRC JV partner

Their joint venture partners are typically large State owned enterprises within the same industry and generally employ over 5,000 people. They are under the supervision of the Ministry of Machinery.

Bureaucratic procedure
Three government bodies have been heavily involved in the approval process in Otis' manufacturing joint venture projects in China i.e. The Ministry of Machinery, The Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and The State Planning Commission.

After the letter of intent was signed by Otis and their joint venturing partner, they needed to submit the project proposal to MOFTEC for initial approval. Subsequently, Otis prepared a feasibility study which needed the endorsement of the relevant ministry i.e. the Ministry of Machinery. The amended final feasibility study after negotiation must be submitted to MOFTEC and The State Planning Commission for approval before both parties could sign the contracts such as the technology transfer contract and the business contract.

The environment

Competition

Otis have been facing intense competition from their closest competitor Schindler of Switzerland. Schindler has acquired both Haughton Elevator Corp. (Ohio) and Armor Elevator Canada Ltd which reinforce Schindler's position in North America. They penetrated the Chinese market by forming China Schindler Elevator Co Ltd in 1980, their first equity joint venture with China elevator Ltd. with manufacturing facilities in Beijing and Shanghai which were among the earliest joint ventures in China. Schindler increased their market presence by establishing the second joint venture in Suzhou, Jiangsu with Suzhou Elevator in 1989 in which Schindler had 40% stake in this US$ 8 million joint venture. The Group's two China joint ventures had a combined work force of 4,400 and produced 2,300 elevators and escalators in 1989 with a potential to expand to 4,000 units.

Otis felt, for competitive and market share reasons that it could not afford to stay out of the important Chinese market, and in 1979 signed an agreement with Tianjin Elevator Ltd to set up an manufacturing equity joint venture. It was not operated until 1984 and was capitalized at US$ 5 million - with Otis having 30%, Tian 65%, and CITIC 5% (International Trust and Investment Corporation, the match Maker). Ever since, they increased their market presence by looking for investment opportunities. Their newest manufacturing equity joint venture is in Guangzhou. It was announced in 1994 but was formally established in 1996 which had a total capital of US$ 30 millions and Otis is holding majority stake.

legal context

OTIS had not experienced any political uncertainty since they entered the market. However, the political struggle between the Chinese government and their closest competitor Schindler provided
them the opportunity to set up joint venture in China. Otis was invited by the Chinese government to submit a proposal to establish a joint venture factory in Tianjin. They were not satisfied with Schindler’s performance because of their limited investment in Beijing and Shanghai of only US$ 4 million each, their low level of exports and slow pace of technology transfer.\textsuperscript{xxxi}

With the reputation Otis has established in the Chinese market, Otis has built up a good relationship with their Chinese parties and hence could negotiate very favorable term in their manufacturing joint venture projects which was a very exceptional case.

The above implies that when an organization have a lot to offer to the Chinese government, they can actually negotiate very favorable contract with the Chinese government.

\textit{Technology}

When Otis approached the Chinese market, they faced a similar problem as other hi-tech companies ie. the difficulty of transferring advance technology beyond the absorptive capacity in China. However, the difficulties in bringing hi-tech operations into the Chinese workplace did not mean there was no place for technology transfer. Otis were able to convince their first joint venture partner Tianjian Elevator to accept older but more appropriate technology in the plant.\textsuperscript{xxii}

After more than ten years joint venturing experience in China, Otis are able to inject more advance technology into their production plants. It is also necessarily for Otis to do this because of increasing wages and other factoring costs. For example, computer integrated manufacturing (CIM) is being used at the Guangzhou Otis Elevator plant in South China. It monitors all facets of the manufacturing plant at all times. The system integrates computer assisted design (CAD) and manufacturing with computer numerically controlled machining of parts. Bar-coding system also allows inventories and work orders to move the supply to a JIT basis. The computer software Chess, created by Xerox, will allow the company to link all its departments with a manufacturing resource planning system, MRP II, with the ability to operate on a UNIX platform in the future.\textsuperscript{xxiii}

2.3 \textbf{Organizational constraints on negotiators’ activities}

\textbf{Composition of the negotiation team}

Mr. Vincent Kwan has been the Chief negotiator for the Otis joint ventures in China. His responsibilities included coordinating all market information collection, analyzing those information, evaluating the feasibility study, and conducting business negotiations in the PRC. An internal business/financial manager would also present to support the financial calculation. His responsibilities
were to evaluate all the financial information and to make recommendations to the Chief and Co-negotiators. A legal expert also present in all negotiation meetings to oversee all legal implications related to joint ventures in China. They were the permanent members in the negotiation team.

They may also bring in some other expert in different situations. For example, in their Tianjian joint venture, they brought in a technology expert to convince their Chinese counterpart to accept older but more appropriate technology in the production plant.

Degree of autonomy in decision making

Otis has been very cautious when they approached the Chinese market. This has been reflected in the degree of autonomy of decision making. According to Mr. Kwan, there are three decision making levels, i.e. the corporate level, the regional office level and the negotiation team level. The negotiation team must report to the corporate head office in the U.S. when the amount of investment exceeds the pre-approved limit. In any case, the negotiation team must report the detail and structure of technology transfer and the life span of the contract. These three factors affect Otis' long term business development in China. Mr. Vincent Kwan and his colleagues operated from their Singapore regional office and needed to consult their General Manager concerning: 1) the dividend arrangement; 2) the plant specification; & 3) the board representation. These three factors are comparatively more micro than the factors reporting to the corporate head office and affect the profitability of the regional office which is responsible for the Asian Pacific region. Mr. Vincent Kwan is in charge of the following decisions: 1) Labor allowance; & 2) Expatriate expenses. These two factors are direct costs related to the manufacturing plant. They are also determined by market forces and therefore they can be more flexible in making decisions.

2.4 Negotiation process

The pre-negotiation stage

Mr. Kwan mentioned that they would do four things to ensure an accurate and smooth transition from a pre-negotiation to negotiation stage.

Firstly, Otis would do a thorough market analysis and need identification of the region before they entered the China market to negotiate for individual joint venture project. As Mr. Kwan explained: “We obtain the town planning blue print from the provincial and city government to estimate the number of old buildings being pull down and the number of new buildings being constructed. Also, we have to estimate our competitors' activities as well!” These information would become part of their proposal and feasibility body which should be submitted to relevant
bodies for approval. Also, Otis needed these data to identify the common marketing and financial goals in their joint venture projects.

Secondly, they met their potential PRC partner and discussed the needs and expectations of both parties in some initial meetings. These initial meetings were important to obtain mutual understandings on expectation so that further cooperation was possible. These initial meetings include some formal and informal meetings. In a lot of instances, more information such as negotiators' other goals could be obtained in the informal meeting. These private meetings also help clarify the bureaucratic structure of their Chinese partnering firms on the of the information they obtained from the formal channel.

Thirdly, they would establish guanxi with their potential partner which involved a lot of private meetings. During these meetings, face dynamic was important because it was a kind of mutual respect on both parties.

Finally, they have to ensure that their potential partner was not negotiating with their competitors. This was vital important because they did not want to be used by their Chinese partner as a leverage to bargain with their competitors. As Mr. Kwan noted: “We are operating in an oligopolistic market. We know who is doing what! We won't negotiate with them (PRC side) when we know they are talking to our competitors!” The political struggle between Schinder and the Chinese government quoted in the political/legal section was an obvious example. Otis started their negotiation with their PRC counterparts after Schinder failed to proceed.

The assurance of the above would lead them to sign a letter of intent with their potential Chinese partner. Mr. Vincent Kwan explained: “this document may not have any real contribution toward the final contract...However, it is the Chinese partner’s proof to their relevant government body concerned that the negotiation is in good progress!”

The negotiation stage

The formal negotiation meetings were conducted smoothly under a cooperative atmosphere or in Mr. Kwan’s term “open and mutual discussion”. Mr. Vincent Kwan attributed this to Otis' market leader position and the oligopolistic nature of the elevator and lift market in addition to their Chinese partner’s need in advance technology. These factors together with the fact that elevator is a necessity in every property development in China during its urbanization process produced a very harmonized and open negotiation environment. During these formal meetings, they mainly clarify some important issues such as extent of technology transfer and attempt to produce a win/win situation.
Because Otis has a very rigorous restriction on the transfer of technology, the right of using their logo and the length of the contract period, they usually had lengthy debate with their PRC counterparts. They were more flexible on some other issues such as investment amount, dividend payment, plant specifications etc. and respond according to their perception on PRC negotiators’ strategies and organizational/market requirements.

Otis could obtain favorable terms on some items due to their leadership and reputation in this industry. For example, Otis was able to convince their Chinese partners and the Chinese government to a 50 years contract which is considered rare in China. Mr. Kwan was also very proud in this: “If you know how to negotiate with them, you can get 50 years! If you don’t, you get 25 or 30 years!” Mr. Kwan also emphasized that patience was needed in Chinese negotiation. As Mr. Kwan put it: “You cannot rush in China!”

The post-negotiation stage

After the formal negotiation meetings, both parties understood the other party’s requirements. Otis then carried out their own feasibility study to confirm their investment decision which may be a lengthy process. For example, their proposal and preliminary study for the Tianjian factory were approved in 1982 but the formal feasibility study took 2 years to confirm and the contract was signed in 1984. The actual production started in 1985. Similarly, they also redrafted their feasibility study seriously for their newly established joint venture in Guangzhou. They needed to incorporate the change according to the economic situation in the feasibility study which required a lot of patience and vigorous compliance to their company policy.

The drafting of the joint venture contract was another job that Otis paid extreme care. According to Mr. Kwan, all terms including the termination of the contract and arbitration must be clearly specified on the contract to avoid argument in future operations.

The contract signing stage

They had not encountered any difficulty at this stage because everything on the contract was fully discussed in the negotiation and the post negotiation stages and therefore both sides were fully aware of the contents and implications of the terms on the contract.

The post contract signing stage

Otis and their PRC partner needed to obtain approvals from relevant authorities by submitting the contract and the Article of Association and also obtained license from the Company Registrar.
Evidence indicated that patience was required at this stage. For example, their Tianjin joint venture was approval in 1984 but actual production did not start until 1984. Otis needed to communicate with their PRC partner in details of establishing the plant. Also, their Guangzhou Otis was established in 1992 but the actual production commenced in 1995.\textsuperscript{xxxvi}

2.5 Negotiating strategy

Competitor

The PRC negotiators mentioned that their competitors’ names in some occasions. However, Otis’ negotiators neglected their claim based on their understanding that the PRC team was not negotiating the same project with their competitors.

They did not actually try to isolate themselves from their competitors. Instead, they emphasized on 1) their company’s reputation, 2) their superior technology level and 3) their product quality and reputation in the global market.

They also explained the importance of mutual benefits of the two parties and slowly progressed to explain the above factors to convince the PRC team that they were the most suitable company for the joint venture.

Pre-determined strategies

Otis did not have any pre-determined strategy as such. They did, however, establish their joint venture objectives, their expectations on business dimensions such as production and the extent of technology transfer. In addition, they prepared alternative options or fall back positions according to different scenarios of offerings given by the Chinese counterparts so that they could respond accordingly. In addition, Mr. Kwan emphasized that they negotiated with the PRC partner in a very co-operative and harmonized environment which may due to oligopolistic nature in this market.

Their Unique Selling Preposition (USP)

Besides the elements which are listed in the competitor section, Otis emphasized on the unique technology in the elevator and lift industry. The summing up of all Bayer’s offerings became their unique Selling Preposition (USP).

Obtaining mutual understanding with their PRC counterparts
Through out formal and informal negotiation meetings, Otis' negotiators obtained mutual understanding via thorough communication with the Chinese.

2.6 Cultural aspects of joint venture negotiation

Otis identified the joint venture partners through their own business network. Also, the oligopolistic nature, the unique technology and the heavy investment in this market mean that there are only a limited number of identifiable players and they share business information. This sharing of information coupling with the high context cultural trait in China has helped Otis identify their potential partners in the PRC. Referral is another source of contact which Otis has been relying on. For example, the Tainjien joint venture was referred by the Chinese government. As Mr. Kwan commented: "Of course it (guanxi) is important. We know some person in China who are at least in the rank of Assistant Commissioner or above!" Otis good guanxi with the government can be cited when the Deputy and Assistant Deputy Mayors of Tianjin attended the contract signing ceremony of Otis China Ltd joint venture on 8th September 1997. In addition, Otis also have good guanxi with local customers. For example, they have obtained the largest orders for the Metro Subway line 1 and 2 in Shanghai in April 1995 and Sept 1996 total US$ 16.5 mil and US$ 10 mil respectively which indicated the confidence and good relationship between Otis and their customers. They also obtained the largest contract in Shenzhen amounting to US$ 8.5 mil for Economic Association Building. As such, Otis has built up a vast guanxi network with local partners, local governments and local customers.

Otis also recognized that the importance of guanxi with their partners and customers. Inter-company visits with their partners were important activities to establish good guanxi and long term relationship.

Mr. Kwan admitted that "Guanxi" and "face" are important cultural elements which they have to manage with utmost care. Guanxi is important if one wants to be successful in the PRC market. He emphasized: "guanxi is not only about giving gift! It is certainly not about corruption...It is a relational concept in which guanxi member mutually contribute their enthusiasm to maintain their relationship in a social circle. Gift is a physical expression of that cultural respect to this relationship." As such, they have established very good guanxi with their PRC counterparts through numerous formal and informal meetings.

Mr. Kwan also put the concept in a very interesting comment on face: "giving mianzi is not just about praising others. It is a social interaction concerning mutual respect and cultural respect." In other word, the members within the social circle respect one another and therefore they have better guanxi. Also, they would not confront their PRC counterparts in formal and informal meetings. In saying that, guanxi and face are not mutually exclusive. They are dependent upon one another to
build up linkage in a social circle. The two concepts compliment one another and form a bonding between the two parties. By utilizing the bonding and understanding of the other party’s expectation, they established trust which implies long term cooperation is possible. Therefore, they have been spending a lot of time in monitoring the guanxi and face elements when they deal with their Chinese counterparts. Also, established guanxi allowed Mr. Kwan to identify their PRC counterparts’ private goals. For example, they may want some important positions in the joint venture factory. In fact, Otis prefers to put local capable personnel in their joint venture instead of sending the senior management from U.S. Their president Mr. Van Rooy labeled this as “multi-domestic” approach. Renqing and reciprocity are the end product of these relational concepts.

There are some evidence that Otis used donation to give renqing and to establish their reputation in the Chinese community. For example, Otis announced in May 1994 that it would donate HK$ 570,000 to charitable organization which would be used to purchase a hydraulic passenger lift to be installed in a new McDonald House.

Evidence also shows that Otis monitor the reciprocity element in the Chinese market. For example, an Otis training and research center is being built in the City of Tianjin which is the largest training within the South East Asia to train domestic Chinese employees. Another training center was established in 1995 in Guangzhou to provide elevator installation training program. The qualification is recognized by the labor bureau in Guangzhou in the same year. Otis invests in excess of US$ 2 million a year in training staff and management. The implementation of JIT system in their Guangzhou plant also indicated that they sourced material locally.

As a result of their successful establishment of 5 joint ventures in China employing about 5,000 people, Otis has a strong support from the Ministry of Machinery and the Labor Bureau. Trust has also been developed among Otis, their Chinese partners and their Chinese customers.

2.7 Problem solving attitude (PSA)

Collect information about their PRC counterparts

Otis collected information at two levels: 1) the macro level and 2) the micro level. At the macro level, they collected urban planning data from the provincial and regional offices. These data gave them indication on the needs of elevators and lifts in different regions within the PRC.

They would also collect opinion from the government about the technology level they preferred. This preliminary information was important to their analysis because the Chinese government may desire some advance technology which they were not able to handle.
The information collected formed an important input to their analyses which was centered at the PRC potential partners. They would do comprehensive analysis on every individual partners on 1) their management & 2) their capability in terms of technology level, production ability, and their distribution ability. They would then identify their requirements on the potential joint venture which formed an important of the joint venture proposal.

After they have finished their formal negotiation with the their Chinese partners, Otis conducted a due diligence assignment on their Chinese partner to ensure their suitability.

**Information given to their PRC partner**

Otis normally gave public information such as financial reports and the technology reports to their Chinese counterparts. In additions, they would gave the issue identification which was generally accompanied by the project proposal. These issues molded that part of the core discussions related to the plant operation. Mr. Kwan explained: “we have to give them this which enable them to develop their own issues!”

**The PRC acceptance on the needs of the foreign party**

Through various discussion sessions, the PRC partner understood the needs of Otis. However, they had their own concepts on joint venturing project and therefore they only partially accepted what Otis proposed. The final settlement on the joint venture project was normally a win/win solution i.e. both parties gained in the joint venture project.

**The importance of information exchange**

The negotiators of both sides emphasized on information exchange. During these information exchange exercises, they understood the other party’s requirement and resolve differences between them.

### 2.8 Joint venture outcome

**Overall satisfaction level:**

According to Mr. Kwan, they are satisfied with the performance measures in this study i.e. profit criteria, market penetration, management experience, product sourcing and establishing credibility and reputation in the Chinese market.
Their joint venture in Tianjin has been very successful in China taking 25% of the domestic market and earning 24 million yuan RMB.\textsuperscript{iv} Another joint venture in China secured its largest contract in September, 1996 to install 120 escalators for Phase 1 of the Shanghai Metro Line Two. The new escalators will be computerized and design to cope with heavy use in public areas.\textsuperscript{vii} This contract will have substantially made penetration and enhance their reputation and creditability in the northern part of China. Also, Otis has also increase their reputation by moving into the business of conservation. It has published “A Spiritual Resonance: The Vernacular Dwellings of China” makes an elegant statement about its effort in that regard and reminds the readers of China’s fabulous architectural heritage.\textsuperscript{viii} Their management experience is also enlightening. According to Mr. Kwan, Otis’ management concept is to employ local personnel to manage their joint venture in China. Their president, Mr. van Rooy termed this policy a “multi-domestic” approach: “we all know multinational companies. This is when a company sets up foreign subsidiaries and keeps their own nationals in charge... We at Otis do something else. We go to a country with local partners or with local management. Often with both. That’s what we call our multidomestic approach. The people of that country are in sync with their environment. They react much better than we could from headquarters.”\textsuperscript{ix} Their joint venture plant in Guangzhou has the up to date technology such JIT which requires tight cooperation with their material suppliers and these suppliers must be located close to the production plant to meet the tight delivery schedule.\textsuperscript{x} Otis has solve their material procurement problem which appeared in their Tianjin plant more than 13 years ago.\textsuperscript{1}

Their future investment intention in the Chinese market

Otis was cautious to put in a limited capital of only US$ 1.5 million when they first set up their first joint venture in Tianjin in 1984. In their newest joint venture in Guangzhou which was established in 1996, they have inject at least US$ 15 millions capital to establish the most advance technology to increase the competitive advantage of their position in the southern part of China. As their President and General Manager of Guangzhou Mr. Vir Santos said: “The opening of this manufacturing facility, our forth in China, is indicative of Otis’ continued commitment to the China market and to providing world-class products and installations with state-of-the-Art production systems.”\textsuperscript{xi} Their increase in capital investment shows their total commitment in the Chinese market. Their present move is to establish a joint venture holding company Otis China Ltd. with Citic Development Co. and Tianjin Tai Kang Industrial & Commercial Co in which Otis will hold majority stake.\textsuperscript{xi} Otis has also shown their total commitment by introducing its CHVF elevators tailored to China’s elevator modernization drive for residential buildings and low rise public building.\textsuperscript{xii}

Mr. Kwan estimated: "in about 20 years, China will have one-third of the world market and at that time, China will become the largest market in the world!" Their Group President, Mr. van Rooy envisioned: "our operations in China are taking the lead in our total Pacific Asia market
development and our objective is to make Otis China a cornerstone of our company...China will be one of our largest operations and one of the largest contributors to our global performance. In 1995, our customers in China award us contracts to supply in excess of 5,000 elevators and escalators." All these facts show that Otis' future investment intention in China is positive.

Learning experience

Patient is the key. As Mr. Kwan expressed: "We go through our negotiation process slowly and progressively... our negotiation for the Tianjin project started in 1979 but its operation started in 1984!" In addition, Otis also learn to monitor the Chinese economic condition at all time because it will affect their business operation in China. For example, Otis will monitor the credit situation in the Chinese market very carefully. Their president Jean-Pierre van Rooy said after the Macro economic control which the author identified in section 2.6 of this thesis: "It's not that the market's not big- people don't have money to pay.... And we've decided we won't book an order there (China) if we don't have down payment. We accept only 20% to 30% down payments. We have verbal orders we won't touch."
Case No. 3: Bayer China Ltd.  

"We won't do anything illegal. But finding positions for them (the PRC negotiators) in the new ventures or sponsoring their kids to Germany for studying is no trouble!"  

- Dr. Jur Markus Arnold- General Legal Counsel (China), Bayer China Ltd.

3.1 Background

Bayer AG is one of the largest chemicals and pharmaceutical companies in the world and is the largest in Germany. The 21 business units within the Bayer group's 350 companies are marketing chemicals to the entire chemical related sectors ranging from health care, agriculture, through engineering materials and chemicals, to photography and graphic systems. Most of these business groups are market leaders such as Agfa Division, Reckitt & Colman, and Bayer Aspirin. The total annual sales for Bayer amounts to DM 48 billion in 1996 with a total employment of 142,000 in over 140 countries.\

Bayer AG entered the Chinese market as early as 1983 but withdrew from this market shortly after the June 4 incident in 1989. However, its immense market potential and presence of their competitors motivated Bayer to re-consider entering the Chinese market. They have been actively negotiating joint venture projects with their Chinese counterparts since late 1993. Bayer China Ltd. was also established in Beijing as a holding company in 1994 to manage these joint venture projects in China.

Because the manufacturing and marketing of their products have been restricted by the four modernization program, establishing wholly owned subsidiary has not been permitted by the Chinese government. Joint venture, therefore, has become their only option to enter the Chinese market. In April 1993, one of their board members Dieter Becher discussed Bayer's detailed market study with Madam Guo Xiu Lian-Minister of Chemicals on the Chinese market. The head of Bayer China Ltd, Mr. Portoff recalled: "We present our own concept. She agreed and, based on these discussions, we proceeded!" They signed a US$ 200 mil multi-project agreement on the 27th November 1993 to cover future investment activities in the areas such as engineering and construction, technology exchange, joint research projects and development in chemicals and pharmaceuticals, environmental protection, market development, and personnel training. This multi-project agreement became the negotiation platform on their subsequent joint venture projects with their potential PRC partners. The

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3 The preparation of this case was based on an interview with Dr Jur Markus Arnold- General Legal Counsel (China), Ms Celina Chew- Legal Counsel both at Bayer China Ltd. and articles cited at the reference section of this case.
agreement, did not, however, cover details of individual venture which had to worked out with the relevant industrial zones or industrial entities on individual basis.

Bayer negotiated their first joint venture (JV) in 1994 and signed the first JV contract in Nov 1995 and started manufacturing favors and fragrance in Shanghai in 1996. Meantime, they also established numerous contacts which became important basis for their ongoing negotiations in China. In 1997, Bayer China has successfully negotiated ten joint venture projects with an average size of under US $ 30 millions.

Their present joint ventures in China include a joint venture with Beijing Economic Technological Investment Development Corporation (BETIDC) in which Bayer holds 95% equity. Another joint venture in Wuxi, Agfa Wuxi Film Production Co. Ltd has already opened a facility for color film, color paper and X-ray film. The Bayer Group is very optimistic in the China market and attempts to double its sales from present level of DM 722 million to DM 1.5 billion within the next 10 years.

3.2 Environmental influence on the negotiation process

Motives of Joint Venture (JV) in China

Bayer’s motives in the Chinese market, according to Dr. Arnold, are threefold: 1) competition, 2) market share, and 3) cultural management.

China, according to their Bayer detailed market study in 1993, will become one of the most important global markets by the year 2000. They perceived that tardy access to the PRC market would allow their competitors consolidating their footing and eroded their market shares in global market. This perception initiated Bayer to accelerate their negotiation on joint venture projects after their first joint venture contract has been signed in 1994.

Bayer also has a vision on market share. They have been joint venturing with their Chinese partners in all major sectors in the chemicals and the pharmaceutical industries which have helped them to establish market shares in all these sectors.

Bayer is also determined to learn the cultural aspects of conducting business in an important market such as China. The cultural experience can help them develop the Chinese and the Asian markets extensively. Their Chief Negotiator, Dr. Jur Markus Arnold, has consistently transferred his cultural experience to his colleagues at Bayer Hong Kong regional office through internal seminars and courses.
In all their joint ventures, they have attempted to hold majority shares so that they can have operational freedom in all these ventures.

**Background of their PRC JV partner**

Because they were not allowed to choose their JV partner freely, Bayer has been following the recommendations of Ministry of Foreign Trade and Economic Cooperation (MOFTEC) and contacted the Ministry of Chemicals. They subsequently negotiated 10 successful Joint Venture projects in China. These partners included either State-owned enterprise, formerly State-owned but now privately owned or privately owned enterprises. The details of their joint venture partners can be found in figure F 3.1.

**Bureaucratic procedure**

The procedures which Bayer has encountered has been quite standardized. They needed to go through MOFTEC and the Ministry of Chemicals to find out their potential business partners. The State Planning Commission would involve in the endorsement purpose. Other ministries would involve in the approval process depending upon the nature of their joint ventures. For example, for a joint venture with a pharmaceutical organization, they registered their joint venture at the State Administration for Industry and Commerce after they have submitted their feasibility study to and obtained approval from the Ministry of Health. The Company Registrar would then issued a license to this joint venture according to the terms on the contract to authorize its operation after Bayer remitted the promised capital to a prescribed bank account.

The approvals from MOFTEC for their joint ventures, however, have not been turning up as smooth as they should be. For example, the contract of the polycarbonate joint venture with Shanghai Chlor-alkali Chemicals was signed in March 1995 but the approval did not come until 1996 which was much longer than MOFTEC’s claim of 45 day approval period.

**The environment**

*Market*

The Chinese market has been perceived by Bayer’s senior management as one of the most important market. One of their Board of Management, Mr. Dieter Becher expressed in this way: “It is obvious that imports cannot be the long term basis to supply what may be one of the world’s biggest single markets in the not-too-far future”

*Competition*
The most obvious environmental pressure came from Bayer’s competitors worldwide. Most of the chemical industries in the Chinese market were underdeveloped and restructuring of these industries were promising opportunities. Bayer, as well as their competitors, needed to participate in the China market at a reasonable pace. Echoed by Charles O. Holliday, president of DuPont Asia/Pacific: “the country will offer high inflation, high corruption, high confusion- but undeniably high growth...it is now the partners (foreign investors) competing for projects. There can be two or three foreign producers competing for each major chemicals project!” The vast Chinese market potential have also attracted multi-national chemical firms such as Ciba and BP to establish their regional headquarters in Beijing.

Political/legal context

Bayer’s Chairman Manfred Schneider was optimistic about Chinese economic reform despite uncertainty surrounding the health of leader Deng Xiaoping. “Our projects in China will proceed at the same rate as originally planned.” said Schneider during his interview with a reporter.

Despite the changes to encourage investment, Du Pont Asia/Pacific office’s president Mr. Charles Holliday exclaimed: “regulations change rapidly. While those changes are generally in the right direction, it can be problematic keeping up.”

The general attitude of the officials at MOFTEC was bureaucratic in nature. They required Bayer to go through a lot of procedures. However, their attitude changed when the Chief negotiator mentioned some big names. In one case, they mentioned the name of the head of the Ministry of Chemicals Madam Guo. The attitude of the Officials became more co-operative! Meantime, internal politics also existed among various Chinese officials within MOFTEC. An organization recommended by an official may not be favored by another official! Once they felt that happened, they would use the big name approach!

The calculation of the value added tax (VAT) was another pressure coming from the government bureaucracy. Bayer have to go through a lengthy lobbying process before they could convince the department concerned to use their method of calculation which substantially improved the profit margin that Bayer anticipated.

The remittance of money into a bank account in China also took a long time. According to Dr. Arnold, it took them 8 months to remit money into an account in China for one of their joint ventures! It was partly due to their company internal approval procedure but it was largely due to the complicated remittance procedures in China.
Social Context

The environmental pressure mainly came from the lack of knowledge in Chinese culture and the government bureaucracy. Some cultural aspects which Bayer has encountered was hard to comprehend. For example, when their Chinese counterpart said "yes", they were not sure whether they actually agreed/understand or whether they have just received the message. When this happened, they needed to verify their meaning in some private meetings with that counterpart’s subordinates.

3.3 Organizational constraints on negotiator activities

Composition of the negotiation team

Bayer China Ltd. was established in Beijing as a holding company to manage all the joint venture projects of the 21 business groups in the PRC. Dr. Jur Markus Arnold- General Counsel (China) has been the Chief and permanent negotiator for the Bayer China Ltd. His responsibilities include coordination of all market information collection activities, examination of those information, evaluation of the feasibility study, and conducting business negotiations in the PRC.

There was either a technical, chemical or marketing personnel of a particular business group involved as a co-negotiator depending upon the nature of the project. His job was to evaluate the major impact of the China project on his business group including feasibility study, sales and profit impact, and the technology requirement if that project involved Hi-tech products.

An internal business/financial manager would also present to support the financial calculation. His responsibilities were to evaluate all the financial information and to make recommendations to the Chief and Co-negotiators.

Because each negotiation team involved top management of individual business group, the negotiation team was autonomous in nature in making important decisions. The management board in Germany was mainly responsible for the approval of the investment amounts and the extent of technology transfer in China.

Degree of autonomy in decision making

Together with the co-negotiator, Dr. Jur Markus Arnold’s negotiation team together with senior management at Bayer China, made decisions on the dividend arrangement, life span of the contract, plant specification, board representation, expatriates’ expenses and labor allowances. After the
decisions have been reached, the board of directors in Germany would endorsed their decisions. If they could not reach a consent with their counterparts in these areas, they would come back to Hong Kong and re-evaluated their business plan before calling another meetings with their Chinese counterparts.

Their Chinese counterparts would not pressurize them in making important decisions Dr. Arnold explained: "we informed them our schedule of staying in China and reminded them we would not extend our stay in China!" When some disagreements which cannot be solved on the negotiation table, they will return to their head office and restructure their negotiation strategies. For example, in their joint venture negotiation with Shanghai Chlor-Alkali, Bayer returned to Germany/Hong Kong after they could not resolve some issues with Chlor-Alkali. Dr. Arnold concurred: "we don’t rush in and finalize our deals in China!" However, disagreement does not mean argument between the negotiation parties, Dr. Arnold emphasized that the negotiations for their China projects have been conducted in relax environment.

3.4 Negotiation process

The pre-negotiation stage

The multi-project agreement signed on the 27th November 1993 between Bayer and the Ministry of Chemicals has been their negotiation platform for joint venturing projects in China. This multi-project agreement also specified the intended investment amounts and the areas of investment. This mutual understanding with the Ministry of Chemicals leaded them to some potential joint venture organizations. After Bayer and a particular organization agreed to negotiate on a particular joint venture project, they signed a letter of intent and a secrecy agreement to protect the confidentiality of their discussion. Simultaneously, they needed to draft the initial feasibility study.

Before both parties formally negotiated the details of joint venture project, they exchanged information in formal and informal meetings. Formal meetings were conducted in PRC partner’s office which involved information exchange concerning the project proposals, business expectation, and market data.

The informal meetings were usually carried out when both parties enjoyed their dinners in banquets. The participation of Bayer’s negotiators in these banquets was important because it was a form of giving face to and establishing guanxi with their Chinese counterparts.
Bayer invited their partners to visit their production plants in Germany to reassure their Chinese counterparts that they were negotiating with a reputable foreign company. Long term relationships and trust were emphasized in these formal, informal meetings and company visits.

Dr. Arnold did not perceive any difficulty before they entered into formal negotiation with their Chinese counterparts. Dr. Arnold explained: "we did not have difficulty as such except that they have different ideas sometimes! We needed to reconcile our differences before we could resume our meeting... we reconciled our differences in restaurant in a lot of occasions!"

The negotiation stage

During the formal negotiation stage, both the Bayer and the PRC negotiators emphasized that joint venture co-operation should be on a long term basis and identified some important issues concerning the projects. Nevertheless, the PRC negotiators from time to time desired simple and straightforward meetings by giving ad hoc promises such as production and cost commitment without careful calculations. Ms Celine Chew commented: "When this happens, we have to sit down and tell them the consequences of certain commitments and show them some examples. We will say if we do this, we will have that kind of consequence. By then they will sit down and talk seriously."

When both parties entered into arguments, the subordinate of the PRC negotiator would explain to the Bayer’s representative the meaning of their chief negotiator during recess. Ms Celine Chew, their Legal Counsel commented, "When we have some disputes on some issues with our potential PRC partner, we will take a rest. In a lot of occasions, a Chinese negotiators will approach us and explain: 'we didn't mean this, we mean that...'. These private explanations, surprisingly, clarified a lot of misunderstandings and saved face of both parties.

Dr. Arnold emphasized that the negotiation meetings were conducted in a very relax and harmonized environment. "When some issues could not be resolved, we will go back to Germany and attempt to find out some solutions before we return there!" said Dr. Arnold. Strategically, Bayer did not inform their Chinese counterparts their approximate schedule of return which signaled to the Chinese partners that they were not urgent to conclude the deal. Confirmed by Mr. Chen Yiqun, representative of Chlor-Alkali: "they have a lot of points, and we have a lot of points of dispute as well...They had returned to Germany and had no immediate plan to return."

The post-negotiation stage

After both parties agreed that the joint venture project was feasible, they re-drafted the feasibility study and submitted it to the relevant authority for approval. This re-draft involved a lengthy discussion on some strategic areas like investment amount and took approximately one year to
complete. The duration of re-drafting the feasibility study implies that they included changes made according to the economic conditions. Also, they started drafting the technology and business contracts.

Meantime, investigation on their potential partner was carried out. This investigation was important because Bayer normally conducted negotiation with the Ministry of Chemicals and then the ministry passed the details of negotiation to a business entity. As a result, the Chinese negotiation party is often not the party who actually discharge the obligations of the contract. Thus Bayer must be very careful in investigating the background of their partner.

The contract signing stage

The PRC negotiators always attempted to change the term of the contract due to the change in operating conditions such as land prices. Bayer normally had to seek advise from the board of directors in Germany before considering the possibility of amendment. Re-negotiations on contract terms would continue until they actually signed the contract.

The post contract signing stage

They had to get approvals from relevant authorities by submitting the contract and the Article of Association and also obtained license from the State Administration of Industry and Commerce. However, re-negotiation still continued. Dr. Arnold mentioned: “After we have signed the contract, they sometimes claimed that they lacked of funds...of course, it all depends on their intention and our relationship!”

3.5 Negotiating strategy

Competitor

The PRC negotiators mentioned that General Electric and BNF Inc. attempted to negotiate joint ventures with them. However, Bayer’s negotiators neglected their claim based on the following assumptions:

1. If the PRC partner continued negotiating with them, Bayer would be the most favored company among its competitors; &
2. The secrecy agreement signed before the formal negotiation started could protect the release of information to their potential competitors in the Chinese market.
They did not actually try to isolate themselves from their competitors. Instead, they emphasized on 1) their company's reputation, 2) their superior technological level and 3) their product quality in the global market.

They also explained the importance of mutual benefits of the two parties and fairness of the deal to their Chinese counterparts. The Chinese party accepted their reasoning due to their reputation of Bayer, their good guanxi and their technological role in the four modernization program.

Pre-determined strategies

Bayer negotiators did not have any pre-determined strategy as such. They did, however, establish their joint venture objectives, their expectations on business dimensions such as production and profit criteria. In addition, they prepared alternative options or fall back positions according to different scenarios of offerings by the Chinese counterparts. Furthermore, they adopt co-operative attitude on the option proposed by their Chinese counterparts when the option was considered fair.

Their Unique Selling Preposition (USP)

Besides the elements which are listed in the competitor section, Bayer also expressed their serious intention to joint venture with their Chinese counterparts by telling them that they were not negotiating with any other Chinese organization at the same time. The summing up of all Bayer’s offerings became their unique Selling Preposition (USP).

Obtaining mutual understanding with their PRC counterparts

Throughout formal and informal negotiation meetings, the Bayer negotiators’ discussions with their Chinese counterparts were guided by the principles they established before they entered China. Mutual understanding was obtained by the use of reasoning, probing, and questioning on their counterparts in China.

The Chinese negotiators, however, may want to expedite the process of negotiation by pretending that they understood what the Bayer negotiators explained to them. Bayer negotiators would normally use examples to reveal the consequences of the violations of some agreed principles to their Chinese counterparts. This usually would achieve mutual understanding.

3.6 Cultural aspects of joint venture negotiation
When Bayer first approached the Chinese market in 1993, they did not have any contact and therefore relying on MOFTEC to provide details of potential Chinese partner in China was their only option. After they have established relationship with some key personnel, their process of identifying the potential partnering organizations became easier. For example, Madame Hua Yi, The Head of The Ministry of Health and Madame Guo, The Head of Ministry of Chemistry have been providing valuable information and contacts to Bayer concerning their joint venture negotiations in China. Eventually, 6 joint ventures has been established with companies under the Ministry of Chemicals and one joint venture with a company under the Ministry of Health. Furthermore, at least two more joint ventures are being negotiated with companies under the Ministry of Chemicals. Mr. Portoff, head of Bayer China said: “the Ministry of Chemicals gives us good support. Since we have realized various joint ventures in China, they know we are not just talking investing in China.”

Through numerous interactions with their relationship networks and existing partners, Bayer has established extremely harmonized guanxi with their contacts in China. The guanxi network provided them important information for their potential joint ventures in China which is highly valued by Bayer’s senior management. For example, the mayors of Beijing and Shanghai, plus the vice majors of Tianjin, have all been to Leverkusen and met with Bayer chairman Manfred Schneider. These inter company visits with key personnel in China were important activities which Bayer exercised them at provincial level, city level and local partnership level.

In order to express their appreciation on the importance of long term relationship and on the value of guanxi they have built up with individual guanxi members, Bayer presented gifts to them at appropriate time and occasion e.g. banquets. Meantime, Bayer attempted to satisfy the private goals of the Chinese negotiators’ private goals. “We won’t do anything illegal. But findings positions for them in the new ventures or sending their kids to Germany for studying is no trouble!”, said Dr. Arnold. Also, Bayer granted consultancy contracts to individual Chinese members in the established joint ventures as an act of reciprocity. In return, the Chinese party would do most of the procedural work for Bayer.

Meantime, they have endeavored to give and maintain the face of their Chinese counterparts. In all formal meetings, they would not confront their Chinese counterparts throughout their discussions. Normally, they would find out the reasons of the problem in some private meetings and attempted to resolve the problem at mid way which was accepted by both parties. This practice maintained the face and reserved the guanxi of both parties.

By establishing 6 joint ventures with the companies of the Ministry of Chemicals and one company of the Ministry of Health, Bayer established reputation in the Chinese market and trust with these ministries.
3.7 **Problem solving attitude (PSA)**

**Collect information about their PRC counterparts**

When Bayer initially approached the Chinese market, they collect information from formal channels such as Statistic Bureau and research report. They produced a detailed report which was presented to the Ministry of Chemicals as mentioned in the Background section of this case. Subsequently, the Ministry of Chemicals introduced them to various down line companies.

Bayer mainly concerned about the financial background and the business abilities of their Chinese counterparts especially their market situations in the Chinese market. In addition, they would analyze their joint venture objectives. After they contacted their potential PRC partner, they asked for the market and company information from their PRC partners and then crossed reference with their own analyses. Thereafter, they started collecting information such as their political background from the informal channel e.g. the middle person besides the formal channel. For example, one of their partners, Jingling Petrochemical Corporation is the second largest petrochemical company in Shanghai.

They would incorporate the PRC partner's needs and market requirement from these information into their business proposals while maintaining their whole business objectives at the same time.

**Information given to their PRC partner**

Bayer normally give public information such as the annual and financial reports. Also, technology report was also be given to their Chinese counterparts to establish mutual understanding between the two organizations. In addition, they specified their contributions on market knowledge, technology input, product upgrading, and production method on their joint venture proposal. Meantime, their volume and profit expectations were also emphasized.

**The PRC acceptance on the needs of the foreign party**

Through various discussion and communications, the PRC partner understood the needs of Bayer. However, the PRC organization had their own goals to pursue and therefore the solutions of various business issues always be compromised so that both parties were happy.

**The importance of information exchange**

The negotiators of both sides emphasize on information exchange. After Bayer understood the characteristics of their PRC, they would ask an outside consultant to carry out a due diligence
assignment on their PRC organization after they have decided to enter into joint ventures with their potential Chinese partner.

3.8 Joint venture outcome

Overall satisfaction level:

Bayer first joint venture project started its operations in the Chinese market in 1995 and they expected to have a profit return in about 4 to 8 years, therefore the joint ventures in China at present do not have a positive profit is not unforeseen. In fact, the long term profit potential is quite promising according to their 1996 internal report. Their vision on profit was significantly different from the Chinese counterparts. Dr. Arnold pondered: “We always talk about long term relationship and cooperation. But once we signed the contract, they expect us to earn profit in the first year!”

Bayer considered that the market penetration is less than desirable. It is due to the limitation of choosing partners and also the under-development of distribution channel in the Chinese market. However, they will maintain their investment momentum and continue seeking opportunities for growth.

Regardless the problems they have encountered in various operational dimensions such as production, their management experience in China have been quite pleasant especially in the area of human resource management. Dr. Arnold explained: “The new generation of Chinese managers are well educated and well prepare to accept challenging works which is beneficial to the growth of Bayer in China.”

They could source from local on some major materials. However, Dr. Arnold complained: “The price of one product quoted by MOFTEC is higher than the market price.”

Because Bayer mainly produces industrial products which are being incorporated into the final products. Therefore, their reputation and creditability in the consumer market is not high. Relying upon the manufacturing facilities can only build up their reputation in the local community.

Future investment intention

China has become the fastest growing market in Asia for Bayer. The Group plans to double its sales in China from present level of DM 722 million to DM 1.5 million within the next ten years.
Projects currently under negotiation or at the planning stage include a joint venture in Shanghai for polycarbonate thermoplastics, an alliance with Shijiazhuang Chemical Factory, Hebei Province, in agricultural insecticides, and a joint venture in Chengdu, Sichuan Province, for animal health products. Two other projects involve the production of synthetic rubber and citic acid.\textsuperscript{lviii}

\textbf{Learning experience}

When investing in the Chinese market, patience is the key. In addition, special attention should be placed in the cultural aspects of negotiation.
Case No. 4: Asia Link Ltd.

"It is vital to find a good partner and we found the China Merchant Holding!"
- Mr. Steward Lee, Vice President, First Pacific Asia Link Ltd

4.1 Background

Asia Link Ltd is a subsidiary of a highly profitable company First Pacific Ltd. It is controlled by the Indonesia’s Salim family which is probably the richest overseas Chinese clan in Southeast Asia. They recorded a sales of US$ 7.03 billion at the end of 1996 with a total employment of 52,800. Through merge and acquisition, First Pacific Group emerges as a Trans-Asia conglomerate. Their core businesses focus on four main areas: 1. marketing and distribution, 2. property services, 3. telecommunications, & 4. finance.

In late 1970’s, the key member of the Salim family, Mr. Liem Sioe Liong (Indonesian name: Soedono Salim) recruited Mr. Manuel Pangilinan, a young investment banker then working for American Express Bank, to set up a Hong Kong-based investment arm for the family business. In 1981, Pangilinan bought a tiny finance company for US$ 1.5 million. This small business entity has been expanding ever since and becomes the First Pacific Co. Ltd. Their strategy has been to invest in products and services with strong or dominant market positions in high-growth Asia-Pacific economies. In 1988, Asia Link which was 60% owned by First Pacific acquired the cellular phone operators China Telephone for US $ 50 million.

Asia Link involves heavily in regional telecommunication projects. They have established an Asian telecommunications business focused on Greater China which includes Hong Kong, Taiwan and China’s nearby coastal provinces of Guangdong and Fujian. Asia Link’s subsidiary in Hong Kong, Pacific Link has licenses to operate mobile phone network on analogue, GSM and PCS platforms. However, all analogue network users will be eventually shifted to use the GSM and PCS networks when the analogue network becomes absolute in the year 2000. Its rapid development attracted attention of Hong Kong Telecom. It was subsequently sold to Hong Kong Telecom CSL Mobile in January 1998 to boost First Pacific Group’s financial position.

This case is concerned about Asia Link’s negotiation experience for their joint venture in Shenzhen, which is close to Hong Kong and located within the Guangdong province.

4 The preparation of this case was based on an interview with Mr. Steward K.C. Lee, Vice President
Because the PRC government imposes severe restriction on infra-structure projects such as telecommunication which make equity joint venture in this industry impossible, co-operative joint venture is the only entry method for Asia Link to participate in this market. Presently, they have two digital cellular mobile phone service network co-operative joint ventures in China, one in Shenzhen and the other one in Fujian province, both on the GSM platform. If situation allows, Asia Link attempts to hold controlling interest. For example, in their Shenzhen Network, they are holding a 60% interest and their joint venture partner China Merchant Holding is sharing 40% and supplies capital and technical expertise to China Unicom Shenzhen, which operates the network under license from its parent, China Unicom Beijing\textsuperscript{xxiii}. They have another cooperative joint venture in Fujian in which they have 25% interest. This venture is providing financial and technical assistance to China Unicom Fujian. However, the following Joint venture negotiation experience refers to their joint venture in Shenzhen.

### 4.2 Environmental influence on the negotiation process

**Motives of Joint Venture (JV) in China**

The essential base of this co-operative joint venture was to access the enormous Chinese telecommunication market by Asia Link and acquisition of Asia Link’s technology by the Chinese partner, thus, this co-operative joint venture is typically technology transfer in nature. Because of the strong political background behind this joint venture, Asia Link must have controlling interest to ensure their involvement in making strategic decisions. With the leverage of their strong technical background, they were able to negotiate their share to 60% and to set up a co-operative joint venture with China Merchant Holding in August 1996.

The ultimate objective of Asia Link is to use this co-operative joint venture as a showcase to establish equity joint ventures when it is allowed by the Chinese government. Mr. Steward Lee commented: “Cooperative joint venture is a start and gives us the opportunity to convert it to equity joint venture which gives us a lot of flexibility to procure capital resources, operating finance and direct marketing our products to the open market.”

**Background of PRC joint venture partner**

China Merchant Holding (Chinese name: Zhao Shuang Ju- means Business Seeking Bureau) is a listed company in Hong Kong but they have a vast Business network operations in the PRC. Their history can be traced back to 1872 when the Chinese official of the C’hing Dynasty Li Haung Chiang of First Pacific Asia Link Ltd. and articles cited at the reference of this case.
established *Zhao Shuang Ju*. He widely invited businessmen via *Zhao Shuang Ju* from five continents to invest in China. After 1949, it was re-organized and became the commercial arm of the Ministry of Transport in Beijing. Its businesses focus on distribution, infra-structure projects, finance and insurance with a market capitalization of US$ 47 billion in 1996.

In this co-operative joint venture with Asia Link, the China Merchant Holding, coupling with the influence from their parent, the Ministry of transport in Beijing dominates the relationship or *guanxi* with China Unicom. Asia Link merely supports their operations with technology and experience.

**Bureaucratic procedure**

As mentioned in section 2.8, the Ministry of Foreign Economic Cooperation (MOFTEC) at State level is charged with the responsibility of approving co-operative joint venture projects above the US$ 30 million investment limit. For any size under this pre-set limit, only local MOFERT Entrusted office approval is required. The size of the co-operative joint venture between Asia Link and China Merchant Group was below US$ 30 million which was a strategic decision to avoid the central bureaucracy of the Chinese Government. As Mr. Lee remarked: *When our total capital was under US$ 30 million, we did not have to go through the central government approval. After the approval process, we can always increase our investment!* This arrangement allowed both Asia Link and China Merchant Group to access to the high growth Guangdong telecommunication market and avoided the complicated approval process from the Central Government. According to the First Pacific Company's annual report 1996, the stage 1 investment amount for this joint venture was US$ 29 million.

In addition, the powerful political background of the China Merchant Holding and their excellent *guanxi* with local Guangdong government were advantageous in the approval of the proposal and feasibility by the local MOFTEC in Guangdong.

The participation of Asia Link in the Chinese market also needed the approval from the Foreign Investment Bureau and the Foreign Exchange Control Department because telecommunication industry is an restricted industry in China.

**The environment**

**Economic**

The GDP of Guangdong Province grew by 16.5 % to RMB 125.3 million and its per capital income was also the highest among major capital cities in China in 1995. In the Special Economic Zone Shenzhen in where the joint venture is situated, the real annual GDP growth has exceed 30% for a five
year period ending 1996. According to an estimate of China Unicom, there are 6.95 million mobile phone users in 1996.

These indicators gave reassurance to Asia Link that Guangdong Province was a potential market for telecommunication services. In addition, Guangdong Province can be their stepping stone to establish their footing in the gigantic Chinese market.

The telecommunication market has been monopolized by the State Telecom which is under the supervision of the Ministry of Post and Telecommunications (MPT). However, competition in the Chinese telecommunication market has been increasing when the State Council approved the establishment of the second telecommunication network China Unicom which is under the supervision of the Ministry of Electronics in 1993. Nevertheless, the Chinese government still do not allow foreign companies' direct involvement in this market. This forced Asia Link to involve in this market indirectly by supplying technology and capitals to China Unicom through their cooperative joint venture with China Merchant Holding.

Legal context

The legal constraints on Asia Link in this co-operative joint venture came from the industrial framework and the legal framework related to joint venture establishment.

Telecommunication industry is a regulated industry and therefore foreign firms cannot directly invest in this market. This restriction forces Asia Link to set up co-operative joint venture with China Merchant Holding to provide financial and technological support to China Unicom in Shenzhen so that they can participate in this market indirectly.

The Chinese laws concerning foreign investment require the registered capitals of foreign firms must be fully remitted into a foreign firm foreign currency account before they can register with the State Administration of Industry and Commerce to avoid foreign firm to take advantage of the Chinese organization on the one hand and to reduce its impact on the Chinese financial system when the joint venture fail on the other. In the case of Asia Link, the Chinese Government checked the financial details of their holding company, the First Pacific Company Limited in Hong Kong which involved the investigation on all of their financial statements besides their foreign currency account with the Bank of China to ensure the new joint venture has enough support from the parent company. In addition, the government also checked all the contract details and their investment structure before they approved the formation of this joint venture.

Social
The economic growth due to the open door policy has initiated Chinese people to seek consumable goods and services such as telecommunication services to satisfy their social needs. However, the control of the Chinese government in this infra-structure area has limited free market competition and hence its penetration into the consumer market. The low penetration rate of the consumer market implies that the cost of owing any telecommunication product such as telephone and mobile phone is high. Owing a telephone in China is, in fact, a social prestige.

This social status phenomenon creates demand for telecommunication products well over their supply. It also implies that telecommunication market is profitable. Asia Link has recognized this market potential in Guangdong Province and co-operated with the China Merchant Holding to set up this co-operative Joint Venture company in Guangdong.

Cultural

The similar cultural background of both the teams implied that cultural factor did not have a great impact on negotiation. Nevertheless, they faced a fundamental cultural trait of the Chinese team e.g. they did not want to give direct answer to some issues because of their collective decision making characteristics. The resolution of this indirect response required numerous contacts between top management of both parties to obtain mutual understandings on investment requirement of one another.

Competition

As mentioned above, direct participation in the Chinese telecommunication market is not permitted. Asia Link, therefore, had to resort to enter this highly potential market by providing innovative financing and build-operate-transfer schemes to circumvent regulations and placed a stake in this market. Other competitors such as Singapore Telecom, Hong Kong Telecom, Pheonix Wireless System have similar arrangements.

4.3 Organizational constraints on negotiator activities

Composition of the negotiation team

The composition of this negotiation team was consisted of the Chief negotiation Mr. Steward Lee, a tax consultant, a legal consultant and a finance manager. Mr. Steward Lee was responsible for the overall progress of the project and ensured company objectives were met without giving in excessively on company’s positioning. The finance manager estimated the financial implication and the legal consultant was giving legal advice to the chief negotiator. The tax consultant is doing all
analyses on tax implications of the joint venture project. An Executive Committee was also formed to supervise the progress of this joint venture negotiation.

Degree of autonomy in decision making

The pre-requisite for Asia Link to enter into joint venture negotiation with China Merchant Holding was to establish some essential co-operative platform for that joint venture. For example, the mutual understanding platform is that Asia Link would contribute the technological expertise and the China Merchant Group would dominate the relationship to secure a service contract with China Unicom for this joint venture.

After this platform was agreed, they entered into negotiation on business parameters such as the investment amount for this joint venture. If saying that, the business parameters of Asia Link were pre-determined. If negotiation on these parameters were within the pre-set guidelines, they could make decisions in consultation with the Executive Committee when they returned to Hong Kong. Because China Merchant Holding is a listed company in Hong Kong, negotiations were sometimes conducted in Hong Kong. In these cases, the top management of Asia Link would present to negotiate and to give face to their Chinese counterparts and there would be no communication difficulty.

The negotiation team had to consult the Executive Committee when they made decisions on technology transfer, investment amount, life span of the contract, dividends and board representation. They were autonomous in making decisions on expatriates’ benefits including their tax arrangement and labor allowances.

4.4 Negotiation process

The pre-negotiation stage

The initial activities after Asia Link decided to invest in China through joint venture were to appoint a business consultant to conduct a feasibility study and to start their own data collection in the Chinese market. They assured the reliability of this consultancy report according to their own internal analyses. This consultancy report and reliability check directed their investment in particular geographical area and potential partners.

The initial contacts between these potential partners and Asia Link were at a very senior level and they shared the visions of the future telecommunication market in China which was a very important process of matching the needs of both organizations. The identification process for a good partner in
China was considered important. Mr. Lee agreed: "Yes, it was vital and we found the China Merchant Holding (emphasize)!"

The agreement to enter into negotiation for a co-operative joint venture project led them to submit their business proposal and feasibility study to local MOFERT and the State Planning Commission so that their investment item could be listed on the Chinese government priority list.

Also, they employed a legal consultant to carry out a "due diligence" assignment on China Merchant Holding. This legal consultant had affluent China connection and enabled them to obtain information from many government bureau concerning their Chinese partner. These government bureau normally do not release information to outsiders.\textsuperscript{xxx}

"Due diligence" refers to the process of reviewing and verifying information about a potential or pending business transaction.\textsuperscript{xxxii} It involves checking the bona fides of a perspective partner company, as well as the individuals who run it, prior to entering into a business relationship with that company. This "due diligence" assignment, in fact, gave reassurance to Asia Link that they chose a good partner.

Mr. Lee cited an example of a French firm representative who met a representative of a Chinese firm which manufactured coconut juice in Hainan Island in a trade exhibition. In their initial meeting, the representative of the Chinese firm presented the company information to this French company and claimed that they earned an annual pre-tax profit of RMB 20 million. After a few talks, they signed the Letter of intent to set up a joint venture in Hainan Island to produce coconut juice. This French Company then employed a law firm to carried out a "due diligence" assignment on this Chinese firm. After this law firm finished their assignment, surprisingly, the claimed RMB 20 million pre-tax profit became RMB 160,000 because a large number of debtors of this firm had collapsed and their account receivable became bad debts!

The 'due diligence' assignment also helped them identify the general situation of their partner and the bureaucratic structure of their PRC counterparts. Together with their feasibility study, Asia Link clearly identified their financial and marketing goals in the joint venture project.

Simultaneously, establishment of guanxi was an important institutional support for long term cooperation between Asia Link and China Merchant Holding. The guanxi building process was conducted during they had dinners within restaurants and during the China Merchant Group negotiation members visited Asia Link's office in Hong Kong. These meetings were important, according to Mr Lee: "The big bosses at the top sorted out the framework at these meetings and we just carried the detailed negotiation with their subordinates!" These private meetings could provide hints to the other goals of their PRC counterparts. As Mr. Lee admitted: "To provide them with
pocket money in China was not feasible because we may be caught...But in Hong Kong...they won't get us!"

Asia Link did not signed the letter of intent at this stage. As Mr. Lee explained: "Everyone knows that the letter of Intent is a piece of paper. Therefore, signing this paper too early without sorting things out does not mean too much to us!"

The negotiation stage

Both teams repeatedly emphasized their similar vision on the Chinese market and established some board co-operative principles such as technology transfer and profit sharing at the beginning of a series of formal negotiation meetings. These vision and board principles were the pre-requisites for the successive negotiation meetings continued on discussing co-operative details which took considerable time to achieve a consensus. Mr. Lee concurred: "We had an easy start but we had a difficult bargaining process on the details!"

Nevertheless, Asia Link diligently handled the disagreement situation by calling off the meeting when they were in conflict on some issues which could not be solved on the negotiation table. This could maintain the guanxi and the face of both parties. Too long a meeting, according to Mr. Lee, would get the Chinese party exhausted and may jeopardize their guanxi. In fact, they attempted to achieve a win/win solution which was acceptable to both parties. Also, pointing to the other party, shouting and the attitude of educating the Chinese party could not be used because these actions would cause the Chinese to lose face and disrupt the negotiation. On some difficult and high level issues such as board representation, the bosses of both teams would sit down and talk privately in a very relax environment. Only through these separate and private meetings could consensus be achieved.

Mr. Lee cited an example of a French firm. Their representatives "educated" and attempted to "impress" their Chinese negotiation party by presenting them vast amount of figures through a 48 hour non-stop meeting. Eventually, the PRC representatives went and told their boss they had to call off the meeting because the style of their French counterparts was just unbearable.

Asia Link negotiation team mainly acted as a liaison mechanism between the corporate head office in Hong Kong and China Merchant Group. Quite frequently, they invited the Chinese party and the officials of the Guangdong government who were responsible for the final approval of their project to come to Hong Kong to further discuss the details. This could improve their personal relationships with Guangdong government officials and the senior managers of China Merchant Group at the same time.
In several occasions, the Chinese party mentioned that they were negotiating the same joint venture with more than one companies. According to Mr Lee, they would not actually negotiate with them if they were negotiating the same project with another firm and therefore Mr. Lee just ignored their claim skillfully when they raised this issue. This issue would disappear toward the end of a series of successive meetings.

As mentioned above, the Chinese negotiation team did not favor long meeting. In saying that, they preferred simple and straightforward meetings while maintaining the flexibility on the operational framework in this co-operative joint venture. But Mr. Lee disagreed: “We would not be rush! We progressed very slowly!”

The post-negotiation stage

At this stage, they signed the Letter of Intent to signify further co-operation through joint venture was possible. Meantime, they had to re-draft and to draft the feasibility study and the business contract respectively. Because both parties emphasized on mutual trust which implied the words and phrase on the contract were simple while its contents were structured as flexible as possible. They monitored the PRC economic situation whilst doing these documents because it may have significant impact on the investment plan in China. This implied that they needed to amend important terms such as capital invested in some occasion. When this happened, they needed to consult the Executive Committee and follow the company policy very closely. Patience was required to go through this stage.

The contract signing stage

When the drafting of the technology transfer and the business contracts were finished, Asia Link needed to check them according to the company policy which required patience and legal skills. However, both parties emphasized on long term business co-operation and relationship when they reviewed the contracts which made major adjustment unnecessary. Based on this mutual understanding, the ceremony of signing the technology transfer and business contracts were simple, straightforward and was conducted in a pleasant environment.

The post contract signing stage

At this stage, they closely communicated with MOFTEC and State Administration of Industry and Commerce and obtained approvals from MOFTEC entrusted office by submitting the business contract, the technology transfer contract and the Article of Association and also obtained license from the State Administration of Industry and Commerce.
4.5 Negotiating strategy

Competitor

Mr. Lee maintained a view that if the PRC firm continued negotiating with them, they were perceived as the best candidate for this joint venture among all other competitors. Therefore, they listened carefully when the PRC negotiators mentioned the presence of competitors and then emphasized on their good friendship and their perfect matching of partnership. This approach softly ignored the PRC negotiators' claim on competitors and reinforced their positioning as good partner.

In addition, they also invited their PRC counterparts for some inspection tours in Hong Kong. This could also enhance the relationship (guanxi) of both parties.

Pre-determined strategies

Their first essential strategy was to employ a good China consultant to collect evidence and figures for them so that accurate picture of the potential co-operative joint venture could be depicted. However, Mr. Lee mentioned that these figures and evidence and figures were for their own use and they did not present these figures to the Chinese sides. As Mr. Lee explained: “If we present ours, they will present theirs and we may end up in disagreements in figures! What is the point?” Two parties solved their differences in good faith and mutual understanding.

As mentioned above, the second essential strategy was to establish some mutual understandings on some board principles and then narrowed them down to some specific areas.

The final cardinal strategy was to prepare some fall back positions just in case the PRC firm had to make some concessions on some of them such as dividend arrangement. Issue such as dividends needed to be solidly discussed because it was not in pro-rata to the capital input holding by each party in a typical co-operative joint venture. This point is proved to be absolutely corrected by one of the articles written by the Executive Vice President of Unison international Deidra Deamer who specializes in assisting U.S. and European companies setting up joint ventures in China. The negotiation on details took up more time than the board issues. As Mr. Lee described: “The discrepancy on these issues between the two parties were more difficult to resolve than to rationalize the board principles!”

Their Unique Selling Preposition (USP)

Their Unique Selling Proposition (USP) was built on their technology expertise in the telecommunication market which was fueled by the good guanxi with their Chinese counterparts. In
addition, they informed them that they were negotiating the same joint venture project in some private meetings fortuitously rather than in formal meetings. This gave signals to the PRC negotiators that competitive forces did exist on the one hand and Asia Link’s negotiators were trying extremely hard to give them good offer on the other which eventually means the good guanxi between them could be maintained and Asia Link’s team gave them a favor (renqing).

Obtaining mutual understanding with their PRC counterparts

Asia Link and China Merchant Holding consolidated their mutual understanding at a very senior level through numerous contacts. Also, they exchange of information in formal and private meetings.

4.6 Cultural aspects of joint venture negotiation

Asia Link identified their joint venturing partner through senior level network of connections. Mr. Lee admitted that they have a network of connection in the Chinese market which helped them identify their potential Chinese party. In fact, some of the guanxi members are senior officials at provincial level. After Asia Link identified and entered into joint venture negotiation with the China Merchant holding, the guanxi maintenance was exercised at two levels: the negotiation and the top management levels of the two organizations.

At the negotiation level, the Asia Link team would never have face to face conflict with the China Merchant team during formal negotiation meetings. As mentioned in the section of formal negotiation stage, they would take a recess and try to solve the disagreement through private meetings. This could maintain the guanxi and the Mianzi of both parties.

If the disagreements could not be resolved at the negotiation level, their top management would rely on their guanxi and unravel these disagreements in some private meetings. As Mr. Lee revealed: “Guanxi is built on the friendship and the reputation of both companies!” As such, the guanxi between the top management is a kind of institutional support or bonding which is generated from the reputation of the two companies and the friendship between top management. Long term relationship is emphasized in every meeting.

To enhance the face or Mianzi of their Chinese party, Asia Link presented gifts to their Chinese counterparts when they traveled to Hong Kong which was also a sign of giving Mianzi to their Chinese counterparts. They also exchanged gifts when the Asia Link’s team went to the Chinese party’s office to show mutual respect and face to the other party.
The reciprocity elements in the Asia Link's case is also evidenced. Both team would reciprocate a visit to the other team when after that team’s visit. Asia Link also reciprocated the Chinese team with ‘pocket money’. Mr. Lee admitted: “To provide them with pocket money in China was not feasible because we may be caught...But in Hong Kong...they won’t get us!” According to Mr. Lee, this was not a bribery but it was to show their appreciation to the Chinese visit!

The *renqing* element is evidenced when the Chinese side did most of the procedural work in the application related to the joint venture. In fact, they were doing favor to Asia Link because they were not familiar with the bureaucratic red tape of the Chinese government.

As mentioned above, Through numerous contacts and the practice of these cultural elements, trust was eventually established to finalize the negotiation. In addition, they based on mutual trust whenever they amended the contract after they signed it.

### 4.7 Problem solving attitude (PSA)

**Collect Information about their PRC counterparts**

As mentioned in the activities related to the pre-negotiation stage, Asia Link started their feasibility study through their a business consultant. This feasibility study mainly confirmed the possibility of investing in certain geographic area and further suggested that co-operative joint venture was the only method to enter the Chinese market. The searching for potential investment geographical area was triangulated with their searching for potential partner. The reliability check on their potential partner was based on the second stage of the outside consultancy work, the due diligence assignment which provided information such as their potential partner’s background and reputation, asset, scope of their commercial activities and financial status.

In addition to the above information collection, Asia Link also used a good questioning techniques to find out the needs of their PRC partners. Through these interactions with their PRC counterparts, Asia Link has been able to obtain a good picture for the role played by them and by their joint venture partner in this project.

**Information given to their PRC partner**

While they collected information about their PRC partner through due diligence assignment, they provided information including their company background, their visions and objectives in the PRC market, intended investment amount and expectation in profit so that they could do their own analyses concerning this project.
The PRC acceptance on the needs of the foreign party

The PRC party initially did not accept their needs. Through various meetings and discussions, they started recognizing their needs and compromised on certain areas such as dividend disposition.

The importance of information exchange

Both parties valued the importance of information exchange. It was vital for both parties revealed their positions and understood the position of the other party. In saying that, both parties went through the process of bargaining with good planning and arrived at a mutual agreed set of conditions which allowed them to operate efficiently in this joint venture.

4.8 Joint venture outcome

Overall satisfaction level

The overall satisfaction level in this project, according to Mr. Lee, is up to management expectation. For example, they are happy with their profit performance, sourcing product material from the domestic market and establishing credibility and reputation in the Chinese market. The market penetration is also up to expectation. For example, the number of subscribers of China Unicom Shenzhen network reached 30,000 in July 1996. Asia Link, is anticipated to share a substantial share as a major supplier.

Despite the overall satisfaction, Asia Link has been facing with some management problems. Mr. Lee felt that a direct reporting system should be implemented on continuous performance because their actual involvement in the daily operation is very limited in this project. Also, an accounting mechanism should be in place to save guide the cost of procurement of materials so that they could have a track record. In sum, the management in this joint venture should be modernized.

Future investment intention

Asia Link is extending this valuable experience to other telecommunication projects in China. For example, similar investments are planned in the nearly cities of Dongguan and Huizhou. Eventually, they will integrate the operations in these cities with their similar project in Fujian. The combined network will become a dominant player in the Chinese market.

Learning experience
When investing in the market, patience is the key. Chinese market must be approached region by region. Special attention must be given to finding a good partner.
Case No 5: Kenwah Enterprises Ltd

"We have promised to give him 5% year end bonus based on the profit generated by this joint venture...This is only a gentleman agreement between us. We did not put it on paper because it is not allowed in the PRC by law!" - Mr. Simon Li, Director of Kenwah Enterprises Ltd.

5.1 Background

Mr. Li was born in Hong Kong. His parents, however, are very traditional Chinese and they sent him back to China to receive education in the early 1980s. His rich knowledge in the Chinese market coupling with the strong financial background of his family indoctrinated them to set up a trading firm in 1987. They mainly imported the raw plant oil from Brazil and re-exported the raw plant oil in bulk to a reputable State Owned Factory in Wuhan, China starting 1987. This factory then reprocessed the raw oil into edible oil and distributed it to the local and nearby communities within the Wuhan district. This logistic arrangement was simple and profitable. Over the years, they have established a very good guanxi with the Wuhan factory especially with their factory manager through numerous interactions.

In early 1992, the Wuhan factory manager had an argument on the plant operation arrangement with the Party Secretary who was nominated by the Chinese Communist Party (CCP). Normally, his responsibilities was to oversee and to report the factory operations to the respective Danwei rather than interfering with the daily operation. This internal politics forced the factory manager to detach from this State Owned Factory. This factory manager approached Kenwah and attempted to borrow some initial capitals to establish his own processing factory. As Mr. Li recalled: “When he approached us, told us his plan, we supported him. I supposed the main reasons were that firstly we knew his character; secondly we trusted him and finally we have an excellent guanxi with him!” Kenwah initially lent Rmb $ 3 million to this factory manager without guarantee to run his operations. This factory manager, as Kenwah predicted, repaid this debt within six months. This also surprised Mr. Li, as he remarked: “We know he is capable, but we did not know he is that capable.” More interestingly, this factory manager accumulated about HK$ 3 millions total assets including land and working capitals up to end of 1992. To further expand his manufacturing facility, this factory manager approached them and discussed the possibility of establishing a cooperative joint venture with Kenwah. As a result of that discussion, Kenwah injected HK$ 7 million capital into the existing operating structure and renamed it as “Wuhan Huajie Oil Company Ltd”. As a result, it is a

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5 The preparation of this case was based on an interview with Mr. Simon Li, Director of Kenwah Enterprises Ltd.
70% (Kenwah) and 30% (PRC) cooperative joint venture and it was officially established in Dec 1992 which was approximately 3 months after their initial discussion for this joint venture. The estimated sales in 1997 is Rmb $ 1.8 billions and presently they have over 50% of the market share in that region.

5.2 Environmental influence on the negotiation process

Motives of joint venture (JV) in China

The main motives were profit oriented and establishment of Kenwah’s own distribution channel in the Chinese market. This factory manager’s excellent connections with the local and regional outlets also contributed to the success of this co-operative joint venture. For example, their profit in 1994 was Rmb $ 20 millions which was an excellent result after only two years of operation. Technology transfer was not a motive because the production of edible oil was low technology in nature.

Background of their PRC JV partner

The PRC JV partner was a factory manager of a State Owned Factory which bought raw oil from Kenwah. Because he had an argument with the party’s secretary inside that factory, he left that factory and established his own factory in 1992. As mentioned in the introductory section, he invited Kenwah to inject capital into his factory. As a result of that invitation, Kenwah became the major share holder in which Kenwah holds 70% of interest. According to Mr Li, this factory manager has excellent guanxi network with the local community and his integrity earns him a lot of respect from his colleagues.

Bureaucratic procedure

As mentioned in section 2.7.2, only local MOFTEC Entrusted Office were involved in the approval process due to its small investment of amount of just over US$ 1 million. Other Government officials included the Chief Secretary of the locality, officials from the State Planning Commission local office and others.

The local government gave them a lot of support because it was the first joint venture project in this locality. In addition, the excellent guanxi network and the quantity of mainzi that factory manager has in the local community actually brought all the government personnel concerned into their factory for three days and carried out part of the approval process there. The whole approval process for this venture was finished in about 80 days and the new venture has been in operation after three months of the initial idea of establishing a joint venture.
The environment

In the case of Kenwah, there was no pressure coming from the political/legal, social and economic environment because of their in-depth understanding of the Chinese culture and its economical situation. Nevertheless, the guanxi and the mainzi elements were major institutional supports in establishing this co-operative joint venture.

5.3 Organizational constraints on negotiator activities

Composition of the negotiation team

Mr. Li - the Director of Kenwah was the chief negotiator of this co-operative Joint Venture project. He was supported by one other staff who was in the financial area. Other than that, he had no other support. This composition was simple but effective. As he explained: “We don’t worry so much about investment in that area. We understand the situation in Wuhan and we have confidence and trust in this factory manager... we know what profit he can make if we sell the raw oil to this joint venture at a certain price! And we know the up and down of oil prices in that region!”

Degree of autonomy in decision making

Mr Li was largely autonomous when making decisions such as dividend arrangement, life span of the contract, plant specification, and board representation whereas the labor allowance is being determined by the Chinese law and therefore they had to obey. Concerning the investment amount, Mr. Li needed to consult his other family members because it may affect the cash flow of their family business. Kenwah did not send any representative to manage this joint venture project. Mr. Li explained: “We will not send any personnel to this joint venture as long as it continues making profit for us.”

5.4 Negotiation process

The pre-negotiation stage

Before Kenwah established this joint venture in Wuhan, they have collected vast amount of market information concerning market potential and price elasticity because they have been participating in the Chinese market via the previous State Owned factory since 1987. Also, they have known the Chinese factory manager for a long time who provided them a lot of valuable information. Therefore,
their major pre-negotiation activities were to meet and to talk about the details of the joint venture project such as the capital injection and alternation of the existing plant layout. The pre-negotiation activities could be summarized by one of Mr. Li’s comments: “We just sat down and talked and the new venture was in operation three months after our initial discussion!” After a few meetings, they have signed the letter of intent. Feasibility study was also jointly prepared and completed in couple weeks.

The negotiation stage

The activities were mainly conducted in some informal private meetings because they have been old friends for quite some time. Informal meetings included dinners and telephone conversation. Formal meeting, in this case, only included business visits to the factory in Wuhan. Both Mr. Li and this factory manager adopted very cooperative attitude and the negotiation was conducted in a very harmonized environment.

The important negotiation issues were centered around the investment structure, investment amount and profit expectation. Mr. Li concurred: “The discussions were not that formal. You know, sometimes we discussed in his office and sometimes in mine and sometimes we sat down in a restaurant and talked...he mainly want to contribute the land and some other assets like machinery and we mainly contribute cash. After we agreed with these, I showed him our sales forecast and profit expectation and he agreed!” Each of these meetings required either understanding or patience.

The Post-negotiation stage

After a few talks, they signed the letter of intent. Because Mr. Li helped this factory manager when he detached from the State Owned factory, this factory manager owed Mr. Li a renqing. In saying that, this factory manager returned a favor to Kenwah by doing all the procedural work including the application for this joint venture. This factory manager filled in the standard set of contract which is being used in other joint ventures of smaller scales in China. A standard English equivalent version of the contract can be found in appendix C.

The contract signing stage

Both sides emphasized on friendship and guanxi, they did not make any amendment on the standard contract and signed the contract. This contract was a standard contract being used by many cooperative venture. The terms being filled in must be checked according to what was agreed. Of course, they can always sit down and talk thing out when different operating conditions come in.
The post contract signing stage

Guanxi has been acting as institutional support in this joint venture. Because the factory manager has good guanxi and his mainzi is well recognized by the local community, he could actually bring in all officials including the representatives of the MOFTEC entrusted office to their factory for three days to conduct part of the approval process for the contract and the Article of Association. Therefore, they did not have any difficulty in getting the contract approval.

After their contract was approved, they obtained a license from local MOFTEC entrusted office and registered their license with the State Administration for Industrial and Commerce. According to the Chinese government policy, they had to remit the agreed capital of HK$ 7 million into a pre-opened bank account in China simultaneously to the company registration. The remitted capital was then verified by the Bank of China before the joint venture could be fully operational.

Because of their efficiency of going through their guanxi network, the duration required for whole approval process from signing the letter of intent to obtaining license from the State Administration for Industry and Commerce approval was about eighty days.

5.5 Negotiating strategy

Competitor

Competition was not a concern for this joint venture because their starting point was based on the guanxi between Kenwah and this factory manager and the need of both parties, i.e. the factory manager wanted the capital and kenwah wanted to further control the distribution channel. They have designated one another as partner right from the beginning of negotiating for this joint venture.

Pre-determined strategy

As mentioned in previous section, both parties were keen to change the buyer and seller to a partnership relationship. Therefore, the main strategy for both parties was collaborative or win/win in nature because Kenwah was keen to have more control on the distribution of the finished edible oil and this factory manager was anxious to more funding to expand his operations. It was, therefore, not a negotiation of whether they should go ahead for this joint venture. Rather, it was how this joint venture to be structured. In addition, they have established very good relationship throughout their association. Based on this platform, trust was emphasized throughout the negotiation process whereas guanxi and face were major supporting elements.
Their Unique Selling Preposition (USP)

This unique selling proposition (USP) for Kenwah in this joint venture was that they have controlled the supply of raw oil to this factory manager and Kenwah supported this manager with capital. This joint venture actually changed their buyer and seller relationship to a partnership relationship.

Obtaining mutual understanding with PRC counterparts

Through extensive information exchange such as investment structure, capital requirement and management arrangement, both parties knew the expectation of each other party.

5.6 Cultural aspects of joint venture negotiation

Five major cultural elements actually worked to bring the parties together. They were guanxi, face (mianzi), renqing, reciprocity and trust.

Guanxi

As mentioned above, Kenwah and their Chinese partner have known each other since 1987. Throughout their association, they know the other party’s background and personal characters which are important frame for them to establish friendship. This friendship has adapted their relationship from business associates to an old friend status. In saying that, Mr. Li used his guanxi with the factory manager to establish his joint venture in China.

Before the joint venture was established, inter company visits were conducted to deepen understanding of the joint venture structure and long term relationship was emphasized during every visit.

Face

Besides conducting inter company visits by both parties, both parties performed face work to consolidate their relationship or guanxi. For example, they exchanged gifts while they visited one another’s offices. Also, both sides had mutual understanding of their role played in this joint venture and therefore they would not confront the other party in any case. Rather, they would endeavor to solve problem in question.

The factory manager is a prominent figure in the local community within the Wuhan region. Through his personal hard work and social status, he has earned respect from the local officials including the
Chief Secretary of that locality which means that he has mainzi or social reputation in front of these officials. As Mr. Li claimed: “he is a popular figure in that region and people respect him because of his ability!” That was why he could organize all officials concerning the approval of the joint venture into their factory for three days to conduct the part of the approval process.

Renging

When this factory manager borrowed money from Kenwah without any collateral, this factory manager actually owed Mr. Li a renging which has to be repaid in later day. In addition, when the factory manager asked all the Chinese officials concerned to work in his factory for three days on part of the approval work, he owed them rengeng which also has to be paid back at a later stage.

Trust

Throughout the association, these two parties have established trust which was heavily emphasized when Mr. Li lent Rmb $ 3 million to this factory manager. The two parties trusted each other even before they started their negotiation for joint venture project.

Reciprocity

When Mr. Li lent money to this factory manager, he had offered a favor or renging to him. This factory manager, then, has to repay Mr. Li’s renging by working hard in setting up the joint venture. This reciprocity dynamic initiated Mr. Li to give 5% bonus on profit to that factory manager to repay his management of the joint venture after it has been established. As Mr. Li admitted: “Because this factory manager has been performing well. We have promised to give him 5% year end bonus based on the profit generated by this joint venture...This is the gentleman agreement between us. We did not put it on paper because it is not allowed in the PRC by law!”

The above five cultural elements actually worked as institutional support in the whole negotiation process.

5.7 Problem solving attitude (PSA)

Collect information about their PRC counterparts

Before Kenwah started their negotiation with the factory manager, they have collected vast amount of sales information because they had been selling raw oil to the State Owned factory from 1987 to the
beginning of 1992 and to this factory manager own factory up to the end of 1992. Based on the sales figure to the two factories, Kenwah has been able to comprehend the demand for edible oil in the Wuhan region. In addition, Mr. Li shuffled between Hong Kong and China frequently and talked to local officials which also enabled him to have thorough market knowledge. In saying that, he has been doing informal rather than formal market survey through an outside agency. Also, the factory manager early repayment of his debt to Kenwah substantiated the sound financial situation of his own factory. The combination of these factors were important to bespeak that the factory manager is a good partner which is hard to find in the PRC.

The only formal check on the factory manager’s operations, according to Mr. Li, was to visit some existing customers of that factory manager before they started their formal negotiation. In addition, Mr. Li also investigated this factory manager’s expectation of this joint venture.

Information given to the PRC partner

Kenwah provided some essential information such as their sales forecast to this joint venture, the sales forecast from this joint venture to their customers and the profit level anticipated from this venture. These information helped them to understand the expectation of each other.

The PRC acceptance on the needs of the foreign party

The needs of Kenwah were totally accepted by this factory manager because injection of capital was urgently required to expand the factory operations.

The importance of information exchange

Information exchange was important in Kenwah’s case because both parties expressed their expectation such as production volume expectation, profit expectation etc. Also, both parties understood their reason to go for joint venture i.e. Kenwah’s intention to control the distribution channel and the PRC factory manager’s intention to procure capital.

5.8 Joint venture outcome

Overall satisfaction level:

The joint venture project satisfy fully about the profit incentive. The profit for their first year of operation in 1993 was Rmb 7 mil and they also recorded an exceptional good profit of Rmb 20 million in 1994. Mr. Li explained: “This profit level was extraordinary because of a market
decrease in price of the raw oil in that year. We don’t expect the same margin will happen in 1997!” However, sales in 1997 is estimated to be Rmb 1.8 billion which well exceed the expectation of Kenwah.

Their factory actually started its operation in the middle of 1992 when the factory manager borrowed Rmb $ 3 million to establish it and became a joint venture in about March 1993. With just over 5 years, they have become a successful enterprise in the local market. Mr. Li estimated that they have about 50% market share in the Wuhan region which is an excellent performance on a 5 year time frame. Mr. Li claimed: “we have approximately 50% of the market in that region... because we are the largest manufacturer in that locality, if we adjust our price, our competitors have to adjust their price too!”

Because Mr. Li trusts the ability of the factory manager, they have not sent anyone to this joint venture to oversee the factory operation. However, Mr. Li mentioned that they may do this in the future. Mr. Li explained: “This factory manager is capable but he is also a bit old fashion. His management style on the 70 existing staffs is a bit behind time! Therefore, we may send someone there if it is necessary.”

Kenwah has been re-exporting the raw oil which they have been importing from Brazil to their joint venture in Wuhan and it will be processed therefore. Because of the factory manager’s excellent Guanxi with their the local suppliers, they have no difficulty in securing a major alkaline material to add into their process to manufacture the edible oil.

The reputation of the joint venture factory in the local community is good because their factory floor space is one of the biggest in that region. Mr. Li was very proud: “our factory is possibly one the the largest in that area and we employ a lot of people in the local community...everybody in that locality knows us!”

Future investment intention

With this favorable investment experience, they will continue looking for investment opportunity in the Chinese market.

Learning experience

Besides capital, market analysis, good guanxi and management of other cultural elements, a good partner need to be identified to order to succeed in the Chinese market.
Case No. 6: Synergie Investment (Group) Ltd. 6

"If something which is reasonable and fair but not legal, it can be discussed. However, if something which is legal but not reasonable and fair, it cannot be concealed!" - Mr. Daniel So, Managing Director of Synergie Investment (Group) Ltd.

6.1 Background

Synergie started their investment in China in the early 1980s. They initially involved in the manufacturing of Hi-tech computer products and their businesses have grown over the years. Their present joint venture investment projects in China include software manufacturing, motorcycle manufacturing, computer manufacturing, property development and mobile phone battery manufacturing. These joint venture establishments, however, required extensive effort. As Mr. So-Managing Director of Synergie recalled: "When I ran around in China looking for opportunity in the 80s, People said I was crazy! People said that they all concentrated their investment in Hong Kong and ask me why should I go to China! The economy there have not been developed!"

CHESS Computer Ltd. was Synergie’s software equity joint venture in China. It was capitalized at below US$ 30 millions and was officially opened in 1993. There were 3 foreign and 3 Chinese partners in this venture. The foreign parties include Mr. PK Shum of Unisys Ltd., Mr. Jims Clark of Netscape, and Mr. Daniel So of Synergie Investment. The three Chinese partners included two State Owned Enterprises Yunnan Electronic Equipment Co. and Asian Simulation Co. and the Shenzhen City Government. This joint venture had a total employment of under 50 people. Mr. So referred his discussion to this joint venture because he had sold out his shares to other partners in this joint venture and therefore relevant information could be released.

6.2 Environmental influence on the negotiation process

Motives of Joint Venture (JV) in China

Their major motives for the software development joint venture were 1) to access to the enormous computer graphic application market 2) to solicit profit and 3) to initiate transfer of technology to their Chinese parties. One last objective, according to Mr. So, was to utilize the software experts in the mainland to produce their products at competitive prices for export to overseas markets. Mr. So

6 The preparation of this case was based on an interview with Mr. Daniel So- Managing Director of
explained: “To be quite honest, there are quite of lot people in China who can write good computer programs!”

Background of PRC JV partner

This is a 50/50 equity joint venture between three foreign organizations and three Chinese State Owned Enterprises (SOE). Two of the three SOE Yunnan Electronic Equipment Co. and Asian Simulation Co. have very special positioning in the Chinese market. According to Mr. So, Yunnan Electronic is a very entrepreneurial firm which specializes in distributing electronic equipment and its management style is very westernized and flexible in nature. Asian Simulation Co. is one of the very few firms in China which specializes in making computer simulation product. It is not a big firm but it has a very unique and representative status. It was among one of the very few firms in Southern China which was visited by Deng Xiaoping in 1992. The third Chinese party Shenzhen City Government was the match maker in this joint venture project.

The Chinese parties have very strong relationship with their distribution channels and have an influential political background which certainly help Chess Computer to establish their market in China.

Bureaucratic procedure

Because the total investment was under US$ 30 million, the approvals of the proposal and feasibility study were only required at local MOFTEC Entrusted office and the State Planning Commission as mentioned in section 2.7.2. The powerful background of the Chinese partners and their acquaintance with local government departments were also definitive advantages in the approval process. They have also obtained manufacturing license which is difficult to get to manufacture computer visual graphic products which can be applied to industries like building, design, medical operation etc. A typical application is Virtual Reality which is a computer 3-dimensional simulation program. According to Mr. So, including CHESS, only three manufacturers obtained manufacturing license for computer graphic package in China.

Because of the unique feature of this joint venture, the Shenzhen City Government actually acted as the roles of investor and approval department which literally support the operation of CHESS Computer in the Chinese market. Shenzhen has been one of the most active investment seeker among the fourteen coastal cities in the Special Economic Zone (SEZ).

The environment

Synergie Investments (Group) Ltd and the articles cited at the reference section of this case.
Synergie is essentially a Hong Kong based firm which started their investment in PRC in the early 1980's. Because of his Chinese ethnic background, Mr. Daniel So did not find any major problem when dealing with mainland Chinese. However, he gave the following comments: "You know the legal system in China has not fully developed, the laws in China are being interpreted differently by different geographical authorities. They may impose different standards on the same issue. China are regulated by human, not by laws."

Hence, Mr. So only invested in those areas such as the Special Economic Zones (SEZ), Beijing which have better legal protection than other areas. As Mr. So explained "These areas are more save!". For example, the CHESS Computer is situated in Shenzhen and his property development project is located in Beijing. His idea is to minimize investment risk because the legal protection is better.

Throughout Mr. So's investment experience in China, he had seen a lot of businessmen who went into China to look for business opportunities. They invited officials who claimed that they could make decisions for numerous lunches and dinners and only found out they were talking to the wrong persons. Actually, these so called "officials" only qualify to relate their investment intentions to their superiors! Mr. So recalled: "I have seen a lot of these things, they came out from China without getting anything!"

Nevertheless, these incidents seldom happen in today's modern China. Actually, in some incidents, the Chinese officials were anxious to pay the food bills more than Mr. So did. The essential reasons were China as a whole, is more affluent than it was 10 years ago which means they can effort to pay for their egos and to earn face in front of foreign investors.

He also had the observations that the officials in Beijing are more business oriented and the officials in the South as such Shenzhen are more planning oriented. That means the Beijing officials are comparatively more flexible than the Shenzhen officials in conducting businesses. Internal politics within Chinese organizations must also be managed with utmost care. Mr. So explained; "When we were talking about this joint venture project, they had to decide who should take up this project and they had a big fight among themselves!"

Also, the officials in Shenzhen like giving assurance to the foreign investors on the possibility of such as obtaining approvals from various departments without actually matching this assurance to the bureaucratic procedures of the Chinese government. This created an excessive impression on the speed of approving the project. As Mr. So remarked: "they gave a lot of empty promises!" However, when Mr. So mentioned a few big names which were very appealing to them, they started sitting down together and talked seriously on their investment project.
6.3 Organizational constraints on negotiator activities

Composition of the negotiation team

The negotiation team included Mr. Daniel So, Mr. Jims Clark of Netscape, Mr. PK Shum, Managing Director of Unisys and a financial expert. From time to time, Mr. Daniel So and Mr. Shum had to go to Shenzhen with the financial expert without the accompanying of Mr. Jims Clark because he was based in America. When that happened, they would send the minute of the meeting to Mr. Jims Clark for record. Of course, they would discuss various issues with Mr. Clark concerning the joint venture project via fax and telephone before they traveled to China.

Degree of autonomy in decision making

Because all the chief negotiators were the CEO of the company, they could make decisions almost instantly without contacting their offices in Hong Kong and America. For example, the only occasion that Mr. So contacted his office was to understand the cash flow situation of his company.

These foreign negotiators mainly made decisions on investment amount, dividends arrangement, life span of the contract, plant specifications and board representation. Because their joint venture was essentially a software house in which programmers wrote their programs, their discussions on the “plant specification” were comparatively simpler than the above terms.

6.4 Negotiation process

The pre-negotiation stage

The establishment of CHESS Ltd. was a typical example of entrepreneurship which was initiated by Mr. So, the Managing Director of Synergie. Mr. So has been a marketing expert in the field of Hi-tech equipment and has started his business venture in the PRC since the early 1980s. He met Mr. Jims Clark, one of the pioneers of Virtual Reality (VR) and related Technologies in the U.S. in 1989 and was amazed by its huge market potential. As Mr. So recalled: “When we discussed this software technology, I was impressed and thought it got to be a sure winner.” In 1993, he discusssed the market potential of VR with one of his old friend Mr. PK Sum. Mr. So described him as an experienced Chinese businessman: “You know, PK is a very experienced China trader and an all-rounder. He has successfully established a number of joint ventures in China!” They came up with idea of producing VR and related software products in the PRC. Mr. PK Sum pursued the idea by contacting one of his old friends in the Shenzhen City Government while Mr. Daniel So approached Mr. Jims Clark in the U.S. concerning this idea simultaneously. They concluded that
manufacturing of VR and its related software packages was bound to have an immediate market because there was no VR or similar software package in China. Also, a plentiful supply of computer programmers in the PRC could actually support the manufacturing of software package.

These three foreign entrepreneurs expressed their idea (or brow the wind in Chinese term) to their Chinese potential parties through various informal meetings in restaurants. After all parties agreed with the basic ideas and its market potential, they signed the letter of intent as a first step to put this idea into implementation.

The first unknown for the foreign parties to tackle was to identify the right partners after they signed the letter of intent. As mentioned above, the Chinese side needed to decide on their partnership composition. The decision was political in nature and involved power struggle among all interested parties. Mr. So referred this political struggle a ‘big fight’. Eventually, they anchored at the two State Owned Enterprises as stated previously. Also, the Shenzhen City Government was involved. Mr. So remarked: “We need to talk at the appropriate political level and to the appropriate person... For example, the Shenzhen government... needed to have stake in this reasonable pie!”

The second unknown which the foreign parties had to ascertain was the level of commitment from their Chinese parties. As Mr. So explained: “Everyone knows that the letter of intent is just a piece of paper... they had to inform their superiors they were conducting some projects with some foreign partners! However, the most difficult thing to get them agreed was their level of commitment.” In saying that, the Chinese parties were normally hesitant to commit themselves and did not want to give direct answer because of their nature in bureaucratic decision making which made the validation of their intention more difficult. The foreign parties endeavored to collect information from their associates via some private meetings on the PRC parties’ actual intention and commitment. Once they confirmed the reliability of their intention, the next step was to determine the Chinese parties financial ability to run the new joint venture company. The foreign parties had ensure the validity of these two dimensions through numerous informal meetings and also through the comments from some of their existing contacts in China.

After they confirmed the above areas, the foreign parties prepared a list of offerings during their brainstorming session which identified the following important strengths: 1) Jim’s Clark is a recognized expert in the field of computer graphic; 2) Mr. PK Shum has operated a number of successful joint ventures projects in the PRC; 3) Mr. Daniel So is a marketing expert; 4) visual graphic software packages have huge market potential in China, for example, the Chinese Government has only granted two other licenses to foreign firms to produce visual software packages in China; and 5) there are a lot of computer intellectuals who can write software packages in China. This combination together with their capital were essential for the new joint venture to succeed. The initial proposal was put forward to their Chinese parties in some informal and formal meetings and was well received.
They also invited their Chinese parties to Hong Kong and visited their offices with the expenses paid by the foreign parties which was an important part of establishing their long term relationship and guanxi with their business parties.

The Chinese and the foreign parties then jointly prepared the feasibility study and submitted it together with the proposal to the MOFTEC Entrusted Office for approval.

The negotiation stage

As mentioned, one of the most difficult things for the foreign parties to identify was the bureaucratic structure and the inside politics within the PRC organizations. They had to go through a lot of informal meetings besides the formal meetings during this stage to understand the reporting hierarchy of their Chinese partners. The inside politics of these PRC parties must also be understood because individual members within these Chinese partners may have different views and ideas towards the joint venture projects. In a lot of occasions, they have to perceive their Chinese parties’ strategies and responded! For example, a typical State Owned Enterprise will have a Party Secretary who is nominated by the Chinese Communist Party (CPC) and a General Manager who is appointed by the organization, they may have internal conflicts among themselves on the project. The Party Secretary mainly looked at the project from the central planning priority but the General Manager perceived the project from the market potential viewpoint. Besides, the right decision makers must also be identified to facilitate effective communication between the Chinese and the foreign parties. In addition, the PRC negotiators may have some private goals which should be addressed reasonably. They cautiously monitored these factors and the PRC negotiators’ face dynamics to balance the interests of all Chinese parties.

The real difficulty came from the attitude of the Chinese negotiators. They had a general attitude that the business problem could be solved when they came along. With this attitude in mind, they did not want long meetings and preferred simple meetings. This may be attributed to the fact that the older generation of managers are still in charge of the State Owned Enterprise and they normally lack business experience in a socialistic driven market economy. The foreign parties spent a lot of time to clarify the proposal and the feasibility study in formal meetings and in informal meetings. In the case of disagreement, the foreign parties normally adopted a compromising and cooperative attitude if they thought the idea was fair.

The post-negotiation stage

Because the Chinese parties were skeptical that the foreign parties put in some causes which have legal implications, they insisted on having the drafting right of the business contract. Nevertheless, according to Mr. So, the business contract which they drafted could not cover all the important
operational details. Hence, they also agreed to prepare a letter to cover all operation details which could not be included on the contract.

The contract signing stage

Before signing the contract, the Chinese parties wanted to make a lot of changes on the contract. Mr. So said: “We knew what changes were mandatory...we would entertain them if we though they were fair!” The adoption of this principle of fairness by both the Chinese and the foreign parties implied that the Chinese processed a compromising attitude which gave a surprise to Mr. So. As Mr. So commented: “everybody thinks that the Chinese negotiators cannot be reasoned... but when you get acquaintance with them, they can be communicated with reasons provided that the deal is fair...it actually works in China!”.

As mentioned, all parties would sign a letter at the solicitor’s office to give protection for all parties. This letter, however, would not surface unless joint venture parties have conflicts at a later stage.

The post contract signing stage

After they have signed the contract, they submitted it together with the Article of Association to the MOFTEC and obtained a license. They had to subsequently register the license with the State Administration for Industrial and Commerce.

The Chinese parties requested amendment of the contract after it has been signed. Again the principle of fairness prevailed. As Mr. So explained: “May be they were relatively inexperience in conducting business and therefore they could not perceive the difficulties before the project was implemented!” The foreign parties would normally agree with the change if they thought the change was fair and would not defer the progress of implementation. In fact, these changes did not always help the daily operation rather then helping the egos of their Chinese parties. As Mr. So remarked: “We solve business problem on a daily basis. Everything changed once the contract has been signed... we might never see it again once we have signed it!”

6.5 Negotiating strategy

Competitor

The foreign parties knew from other private sources that the PRC parties did not actually have competitor at the time of negotiation even though the Chinese parties claimed that they were negotiating with other firm for the same project in several formal and informal meetings. They
maintained a view that the PRC parties would continue negotiating with them if they did not have a partner. In fact, the Chinese continued negotiating with them.

In addition, they impressed their Chinese partner by a very unique selling proposition: their leading position and expertise in computer graphic technology which was supported by their marketing know-how and excellent channel connections in the Chinese market. They believed these competitive advantages would be well received by their Chinese parties.

**Pre-determined strategies**

Their main strategy was to position themselves as software experts position in the Chinese market and convinced their Chinese partners that they were eager to transfer their software technology to them. However, they also expressed that reasonable profit was mandatory at the same time.

**Their Unique Selling Preposition (USP)**

Their unique selling proposition was that they had a good computer graphic technology for the developing Chinese market and they had an extremely strong technical team. In addition, the foreign parties emphasized on mutual relationship and did not exert any competitive force on the Chinese parties.

**Obtaining mutual understanding with PRC counterparts**

They obtained mutual understanding mainly through exchange of information with their PRC partners. By exchanging information with their PRC partners, each side knew the expectation of the other side and they endeavor to adjust their requirements to compromise the other’s needs so that each side could meet their business objectives.

### 6.6 Cultural aspects of joint venture negotiation

The foreign parties identified their PRC partners through their *guanxi* network. For example, Mr. PK Sum had a good *guanxi* with the Secretary of the Shenzhen City Government. This *guanxi* member, because of giving *miansi* to Mr. PK Sum, offered them help in finding other PRC partners. In this example, this *guanxi* person invited other PRC potential partners to have dinners with the foreign partners and exchange their ideas during dinners. Doing business over banquets is obviously a popular mode of operation in China. To reciprocate, they invited Shenzhen City Government to join as one of their partners.
In establishing "guanxi" with all Chinese partners, they invited their potential Chinese partners coming to Hong Kong and inspected their business offices. To show their appreciation for their visit, Mr. So and his business partners provided some pocket money to the Chinese members to spend while they stayed in Hong Kong. Since they did them a favor, the foreign parties expected the Chinese partners would reciprocate in some future date throughout their association. In addition, the foreign parties also visited their Chinese parties' offices as a reciprocity and long term relationship was emphasized during these visits.

Through these guanxi building, face giving and mutual understanding exchange, mutual trust was established. According to Mr. So, the Chinese are relatively inexperienced in conducting business as compared with their foreign counterparts, they logically put more emphasis on trust rather than contract. As Mr. So explained, "They are more willing to do business with friends!"

Nevertheless, the Chinese desired to keep the contents on the business contract as simple as possible to avoid legal proceeding because they may not able to fulfill the legal obligations when the Chinese economic and political situations change. In other words, the Chinese wanted to have a more fair game because they just could not control the macro economic environment which has been heavily influenced by the Central Government. As So commented: "if something which is reasonable and fair but not legal, it can be discussed. However, if something which is legal but not reasonable and fair, it cannot be conversed!"

In order to maintain the mutual relationship and mainzi of all Chinese and foreign parties, they would not confront with their Chinese parties in the formal meeting when disagreement raised. Rather, they would talk to their Chinese counterparts in some private meetings and attempted to understand the reasons of the disagreement. The understanding help them re-solve the problem and present their solutions in subsequent formal meetings.

6.7 Problem solving attitude (PSA)

Collect information about their PRC counterparts

The foreign parties would carry out formal and informal check. Formal collection of information included request for financial statements and investigated the business commitment in terms of capital and their political background from their Chinese counterparts as mentioned. They also went through some secondary sources such as the local news articles concerning their Chinese parties' business objectives expressed on those articles and cross-referenced with the information they collected directly from their Chinese partners.
Informal avenues included obtaining the perceptions of their intentions and commitment from their business contacts. Typically, these business contacts are business associates of both the foreign and the Chinese parties at the same time. This step was especially important to cross-reference the financial and political background of their Chinese counterparts. Also, it helped establish the validity of their financial background.

In addition, they would do preliminary market research to confirm the market potentials of their proposed business. The gathering of these information allowed Mr. So and his foreign partners to identify the need of their Chinese counterparts.

Their identification of the needs of the joint venture of their Chinese partners did not automatically mean that the foreign parties fully incorporate these needs into their business proposal because some of them were in conflict to their own! For example, the Chinese parties may wish to inject smaller capital because they had a view that the Chinese market itself is attractive enough for the foreign parties to put in more stake. Mr. So and his partners spent considerable efforts to convince them to a 50/50 equity joint venture. In other operational issue, Mr. So and his foreign partners wanted to have more control in the daily operations to ensure the success of the joint venture project and made some compromise by giving away the chairmanship of the joint venture firm to the Chinese partners. This was because the foreign parties perceived that big decision needed to be approved by the board as a whole but not by the chairman alone and therefore chairman was only a nominal title rather than a real decision center. The appointment of chairmanship to the Chinese side was just a matter of giving face or mainzi to the Chinese partners.

Information given to the PRC partner

They provided some essential information to their PRC counterparts especially their profit expectation and the product potential in the domestic and the overseas markets. These information helped their Chinese counterparts to understand their position in this joint venture project.

The PRC acceptance on the needs of the foreign parties

The needs of the foreign parties were receptive by the Chinese parties when they considered as reasonable. However, the Chinese parties had some areas which could not be compromised such as the level of investment by the foreign parties. May be it was due to the planning requirements of the central government.

The importance of information exchange
Both sides placed high regard to the process of information exchange. However, the Chinese side would put more emphasis on the informal mode of information exchange.

6.8 Joint venture outcome

Overall satisfaction level:

According to Mr. So, he was satisfied with the product/market penetration of this joint venture. The sales of their software products started picking up because of the lack of similar product in the domestic market and its reasonable quality and price.

Nevertheless, the profit generated by this joint venture could only marginally met the expectation of the foreign parties. The potential reasons may due to the lack of coordination from all parties concerned in the daily operation and therefore the profit could not be materialized. In addition, the management of local employees were not a pleasant experience because of difference in cultural background and therefore western management concept could not be fully implemented. Further, some components for their turn key operation software system projects could be sourced from the domestic market but their qualities were inconsistent.

Mr. So could not give comment on the credibility and reputation issue for this joint venture in China because its presence in China is just not long enough to make a concrete indication.

Future investment intention

Synergie has been very confident in China and therefore all their major investment are presently situated in China. One of their newly property development project is located in Beijing. As he recounted: “Our land in Beijing is located just between two pieces of lands which are belonged to two property development giants Sun Hung Kai and Henderson Development. When we got the land, these two big guys do not even know who we are!” In sum, they will continue invest in China.

Learning experience

Mr. So summarized his learning experience in China: “In China, you have to be patient because it takes time to accomplish your work. Also, it is vital to train up local personnel. You know, keeping an expatriate up there is very expensive!”
Case No. 7 Donaldson Far East Ltd.⁷

"This State Owned Factory had a financial problem, they required some company to employ their excessive manpower which was allocated by their danwei. We were just there to fill up the gap."

Mr. Kenneth Yeng- Division Manager, Torit Products

7.1 Background

Donaldson Far East Ltd. is a subsidiary of Donaldson Company Inc. of the United States which is a leading worldwide manufacturer of filtration products. It is listed on the New York Stock Exchange with a record sales of US$ 703 millions and employed over 5,000 people at the end of 1995. The company’s 80 years of experience allows Donaldson’s engineers to develop a full range of product mix including air and liquid filters and exhaust and emission control products for heavy duty mobile equipment; in-plant air cleaning system; air intake systems and exhaust products for industrial gas turbines; and specialized filters for such diverse applications as computer disk drives, aircraft and personal respirators. Products are produced at 10 U.S. plants, 11 other plants around the world and two joint ventures.⁸⁹

7.2 Motives of the joint venture

Donaldson Far East is based in Hong Kong to look after the Greater China Market and the rest of Far East besides Japan, India and Australia. Starting from 1991, a lot of their customers have moved into China to take advantage of the comparatively cheaper factoring cost. Donaldson Far East then considered how to better serve their existing customers in China. Mr. Yeng recalled: "5 years ago, a lot of our Hong Kong customers moved into China. In response to our customers' request, we intended to set up a assembly joint venture there to look after them. Also, this joint venture may provide us the opportunity to open up the Chinese market."

7.3 Organizational constraints

Because they had limited knowledge in the Chinese market, they intended to establish the joint venture in such a way that all the complicated bureaucratic procedures could be avoided so that they could save some management cost. They also attempted to limit their investment risk. Mr. Yeng remarked: "You know, our company has 80 years of history and we are a bit conservative in going into China. We did not want to be too risky. Before we went into China, my boss asked

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⁷ The preparation of this case was based on an interview with Mr. Kenneth Yeng, Manager, Torit

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me how much investment would be involved. I told him it would be US$ 700,000... At that time, we threw our maximum lost would be that US$ 700,000, so my boss told me to go ahead!"

7.4 Negotiation process

After Mr. Yeng obtained the green light to go ahead, he then looked for a way to set up the joint venture in the simplest way and at minimum risk at the same time. As Mr. Yeng elaborated: "Because we had an existing distributor in Hong Kong and he had a lot of China connection at the time, so we went through him to negotiate a joint venture in China. We firstly set up a joint venture company in Hong Kong with this distributor in which we owned 80% of interest. Our distributor then negotiated a joint venture company with Qualin Air Conditioning (QAC) in China in which the Hong Kong joint venture holds 66%. We asked Ms Sally Harpole of Deacons in Hong Kong to help us with all the legal documents. In effort, we are holding more than 50% of interest in this Chinese Joint Venture... In this way, we could participate in the Chinese market on the one hand and escaped from the complicated bureaucratic procedures on the other!" They joint ventured with QAC because they had a financial problem at that time. As Mr. Yeng explained: "This State Owned Factory had a financial problem, they required some company to employ their excessive manpower which was allocated by their danweli. We were just there to fill up the gap." However, Mr. Yeng admitted that they did not know all the details on the negotiation with their Chinese counterparts because all the negotiation was conducted by their Hong Kong partner.

7.5 The real negotiation

The negotiation of Donaldson Chinese joint venture was started at the beginning of 1993 and it was in operation at the end of 1994. The joint venture factory was built alongside with the QAC State Owned existing factory so that the QAC factory Manager can also look after this joint venture operation jointly with the Hong Kong partner. This joint venture employed approximately 40 workers and they were directly transferred from the original QAC State Owned factory.

From then on, negotiation has been on a daily basis. As Mr. Yeng explained: "You know because this Chinese assemble joint venture is a subsidiary of the Hong Kong office, and therefore it is quite normal for us to charge them a consultancy fee, loyalty fee and licensing fee to assemble the air filtration systems which have been patented by the US corporate head Office. The Chinese factory manager questioned about this on why they have to pay. Our initial analyses was that they processed a skeptical attitude or they had a theory of skepticism which was very

Products of Donaldson Far East Ltd and articles cited at the reference section of this case.
popular during Mao’s period. They just criticized on everything. However, when we continued
analyzing their action, we realized that he may want to have the consultancy fee himself! You
know the American firm must substantiate every charge and therefore we didn’t promise him
because he just sat there without doing too much work for the joint venture!”

Mr. Yeng further elaborated their experience with this Chinese joint venture: “In other occasion, for
example, he questioned about why the joint venture workers have higher pay than the local
workers. Our subsequent analyses showed that he wanted more salary himself! The negotiation
never ended. At one time, they negotiated on the Joint Venture contract terms. Some other
time, they talked about different production requirements!”

7.6 The result of the joint venture

Mr. Yeng perceived that the first Danoldson joint venture in China was failed. First, the factory has
been very disorganized because of the intervention from this Chinese joint venture partner.
Therefore, there was no profit generated from this joint venture in 1995/6 and Mr. Yeng suspected
that they will have a profit for 1996/7 financial year. Second, they cannot further access the market
because of management disagreement with their joint venture partner. Third, they can source the
casing for their systems in China but its quality has been very inconsistent. Finally, they have not
established their reputation in China because they have difficulty to further expand their operation in
China.

Mr. Yeng attributed the failure of this joint venture: “I suppose the main reason for this unhappy
marriage is that we have a bad “guanxi” with our PRC partner. In fact, we have never met
them before we established our factory in China. Second, we should not sub-contract the
negotiation to our Hong Kong distributor. Finally, we don’t have mutual trust!... the situation is
so bad that that we are talking about a total take over of the venture in order to save our
investment in China which is another round of negotiation. We are talking about how much
money we have to pay to buy up their shares subject to our evaluation of their total current and
fixed asset in this venture. However, they have different idea! They calculate their total
investment from the inception of this joint venture up to this moment which is much higher than
the sum of their total assets in this venture!”

Above are the general background, negotiation process and the result of this joint venture. The
following is a within case analysis. Because the dependent variable, negotiation result was different
from other cases, this analysis is limited to the information available which results in disappearance of
some sections.
Reference:

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An Empirical Study of a Holistic
Sino-foreign Joint Venture Negotiation Model

By

Thomas K.P. Leung

A thesis
presented to the
University of Western Sydney, Hawkesbury
in partial fulfilment of the requirements
For the degree of
Doctor of Philosophy

August, 1999

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Statement of Authentication

The work presented in this thesis is, to the best of my knowledge and belief, original except as acknowledged in the text. I hereby declare that I have not submitted this material, either in whole or in part, for a degree at this or another institution.

(Signature)
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January 2000
Dedication

I would like to express my deepest gratitude and love to my wife, May. Without her patience and encouragement, I can never finish this study. She has shown all virtue of a Chinese woman. To express my appreciation and respect for her, I would like to dedicate this study to May and my son, Nelson, with deep affection and devoted love.
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Abstract

The purpose of this thesis is to announce an empirical study of a Sino-foreign joint venture negotiation model that essentially integrates strategies from western literature into a Chinese environment and cultural context. The thesis reports its findings and recommendations that aim to helping foreign negotiators to penetrate the important Chinese market through a systematic approach emerging from this Sino-foreign joint venture negotiation model.

This thesis recognises that existing western negotiation literature is not sufficient to address the complex problems of Sino-foreign joint venture negotiation because of its environmental and cultural emphasis. It is influenced by four contextual variables i.e. the strategic environment context, the organisational context, the negotiation process and the negotiating culture. The thesis provides a holistic view on Sino-foreign joint venture negotiation and the rationale of generating a Sino-foreign joint venture negotiation model is given.

Case study method was determined as the best methodology to conduct this study because of its ability to investigate a contemporary issue within its real-life context, especially when the boundaries between phenomenon and context were not clearly defined in this study. Its quality assurance system was discussed. The suitability of the sino-foreign joint venture negotiation model and the research protocol of this study were demonstrated via 5 in-depth interviews and a pilot test before the actual fieldwork.

The evidence generated from the within-case and the cross-case analysis has provided compelling support to the generalisation of the Sino-foreign joint venture negotiation model across different industries. The major findings of the thesis suggest that foreign negotiators need to manage complex areas such as the Chinese environment, the company requirements of both organisations, and the Chinese negotiating process. Besides, the foreign negotiators need to equip themselves with Problem Solving Attitude (PSA) and an understanding of Chinese cultural concepts i.e. guanxi, face, reqing, reciprocity and trust so as to make their negotiation assignments effective. Different strategies emerge at different stages of the Sino-foreign joint venture negotiation process. There is no direct relationship between successful negotiation and joint venture outcomes. As such, readers can follow the suggested negotiation model and strategies for joint venture establishment in China but the model itself has no predictive power on joint venture outcomes such as profit satisfaction.

The thesis recommends that foreign firms and their negotiators should:

- Incorporate an Unique Selling Proposition (USP) into their joint venture proposals so that the joint venture items appropriately fit into appropriate categories of the Chinese planned economy. An USP may include helping the Chinese government to restructure its industries or providing a technology that is wanted by the Chinese government.
• Give attention to the changes within the Chinese legal system to keep abreast of the Chinese economic development so it has been evolving in response to the change within the Chinese strategic environment.

• Recognise the importance of potential markets for joint venture establishment locations. Its selection guarantee joint venture success to a certain extent.

• Establish a strategic business unit (SBU) to responsible for the Chinese market because of its uniqueness and importance in the world market.

• Using China as a production base is no longer a viable proposition because production cost is bound to increase when its economic activities increase.

• Go through some connections to source for potential Chinese partners. A good connection can reduce the time of finding a good partner.

• Recognise that sino-foreign joint venture negotiation process has five stages, i.e. the pre-negotiation stage, the negotiation stage, the post-negotiation stage, the contract-signing stage, and the post-contact signing stage. The contract can be re-negotiated after it has been signed. Patience is required throughout the whole negotiation process because its time frame is comparatively longer that that in the west.

• Note that the strategies proposed by the sino-foreign joint venture negotiation model are co-operative in nature. Conflict strategies will harm the long term relationship of both parties.

• Agree that negotiating with the Chinese is an economic exchange as well as a cultural exchange. Besides a Problem Solving Attitude (PSA), foreign negotiators need to equip themselves with an understanding of Chinese cultural concepts i.e. guanxi, face, renqing, reciprocity and trust. PSA and the appreciation of Chinese culture become a joint venture negotiation pillar that supports the whole negotiation process between foreign and Chinese negotiators.