Culture as a Driving Force for Interfirm Adaptation: A Chinese Case

Tony Fang, Linköping University, Linköping*

Abstract

The existing IMP wisdom points to the “five metaphors” (investment, decision-making, political process, learning, and evolution) as the cognitive map for understanding interfirm adaptations. Based on a case study, this paper, however, argues that culture is a significant force driving interfirm adaptations. The paper suggests adding a new metaphor—the culture metaphor—to better understand the workings of adaptations in interfirm relationships.

Introduction

The concept of interfirm adaptation in business relationships and networks is a critical component in the IMP (Industrial Marketing and Purchasing) paradigm pioneered by European marketing researchers (Brennan & Turnbull, 1995, 1996, 1997, 1998; Ford, 1980, 1990; Håkansson, 1982; Håkansson & Snehota, 1995; Hallén, Johanson, & Seyed-Mohamed, 1991; Turnbull & Valla, 1986). In industrial markets where relationships between buyers and sellers often last over a considerable period of time, one can well expect that sellers adapt to the needs (e.g., technical, administrative, and logistic) of specific buyers and vice versa. In other words, significant counterpart-specific interfirm adaptations on the part of either buyers or sellers, or both, occur. The firms in a relationship tend to modify and adapt, more or less continuously, the products exchanged as well as the routines and rules of conduct in order to function better vis-à-vis each other (Håkansson & Snehota, 1995). In working business relationships, adaptations from one party tend to be reciprocated by adaptations from the other party (Hallén, Johanson, & Seyed-Mohamed, 1991). In short, interfirm adaptations are a defining component of buyer-seller relationships.

Despite its considerable relevance for our understanding of business relationships and networks, interfirm adaptation has been scantily researched. There is a gap in the industrial marketing management literature where interfirm adaptation is concerned. Brennan and Turnbull (1995, 1996, 1997, 1998) are among only a few researchers who have studied interfirm adaptations in a systematic fashion. They (1995, p. 182) provide a survey of the concept in the literature and give the following definition of interfirm adaptations, which is also used as the working definition of the concept in this article:

[Interfirm adaptations are] behavioural modifications at the individual, group, or corporate level carried out by one organisation, which are initially designed to meet specific needs of one other organisation.

* Tony Fang, International Graduate School of Management, and Industrial Engineering (IMIE), Linköping University, S-581 83 Linköping, Sweden, Tel: +46 13 28 44 44, Fax: +46 13 28 18 73, Email: tonfa@eki.liu.se

Brennan and Turnbull (1996) further progress the scholarship by proposing the “five metaphors” for understanding the process of adaptations in interfirm relationships. First, adaptation is understood as an investment process. An initial adaptation is expected to yield a sequence of positive “net cash flows” over time. The “investment metaphor” is believed to be particularly relevant when it comes to adaptations involving physical assets. Second, adaptation is viewed as a decision-making process by which problems are analysed, uncertainties and values are assessed, and the optimal strategies are determined. The “decision-making metaphor,” similar in some ways to the first one, suggests a business strategy based on rational thinking. Third, adaptation is described as a political process. The “political process metaphor” points to adaptations as the result of negotiation, power, and sacrificing. Fourth, adaptation is seen as a socialisation process. Here, socialisation is defined by Brennan and Turnbull (1996, p. 141) as “the process of learning how to behave properly.” And it is on this point that the “socialisation metaphor” is believed to link “organisational learning,” a large stream of research on organisation, with the IMP enterprise. Finally, adaptation is conceived of as an evolutionary process. The “evolution metaphor” suggests that adaptation is a process by which buyer and seller adjust in order to serve each other better. Each of the five metaphors focuses on a particular point of analysis of interfirm adaptation. As a whole, “the metaphors are found to be complementary so that taken together they provide a coherent process view of buyer-seller adaptations” (1996, p. 127).

Using metaphors to study business, management, and organisation has been increasingly popular in recent years (see, e.g., Gannon & Associates, 1994; Kao, 1997; Morgan, 1986). Metaphors help craft our thinking in distinctive ways. A common fallacy of metaphors, however, is that they are too focused on particular points of analysis to obtain a holistic picture of the whole “elephant.” Therefore, it is important to try to perceive the “elephant” from every possible angle to arrive at a fuller understanding.

About this study

The international and often cross-cultural business environment in which firms operate provide opportunities to put the existing wisdom to test. The purpose of this study is to explore whether culture, or more specifically, national cultural value influences interfirm adaptations in business relationships. The study intends to answer a fundamental research question: Does culture influence interfirm adaptation?

The empirical base of this article is the author’s recent investigation into a series of related shipbuilding negotiations which took place during the year 1996 between a Chinese shipyard (C) from Shanghai and three shipping firms (D, N, S) and one ship classification society (NOR) from Scandinavia. Three major interfirm adaptations that the Chinese shipyard had adopted in its negotiations with D and NOR are illustrated in detail. Although the empirical case is a Chinese one, the normative implication it offers is believed to far exceed its empirical context.
The “culture bead”

If we compare the IMP approach to a string of beads of various cognitive coloration, the “culture bead” is missing on the string. One may argue that given the IMP’s international background, “the ‘universality’ of business relationships emerge,” which is “a phenomenon not confined to a certain area or culture” (Håkansson & Snehota, 1995, p. 4). Nevertheless, if we put people and relationship in focus—the hallmark of the IMP mission which distinguishes itself from the traditional marketing mix approach—we have to face up to the fact that culture always exists in the picture through its fundamental impact on the behaviour of the people who are at the centre of the relationships.

Given the definition of interfirm adaptations as behavioural modifications at the individual, group, or corporate level, we find that culture has great relevance for our study of interfirm adaptations. Hofstede (1980, p. 25) treats culture as “the collective programming of the mind which distinguishes the members of one human group from another” and defines it as “the interactive aggregate of common characteristics that influence a human group’s response to its environment.” According to Adler (1991, p. 15), “individuals express culture and its normative qualities through the values that they hold about life and the world around them.” Trompenaars (1994) views culture as coming in layers, like an onion; on the outer layer are the products of the basic values and assumptions that sit deeper within the onion. In the vein of this discussion, culture is defined in this article as a system of shared values that distinguish one group of people from another. Value is viewed as that which is explicitly or implicitly desirable to individuals or groups and which influences their selections of various modes, means, and ends of actions (Adler, 1991). Value provides a guide for desired patterns of behaviour and explains why people selectively attend to certain goals while subordinating others. Adler (1991, p. 17) puts it straight: “People’s behaviour is defined by their culture.”

A normative implication percolated from this line of discussion is that culture has its considerable part to play in the shaping of logic that underpins the dynamics of business relationships; culture influences interfirm adaptations through the values held by the people who are at the centre of adaptations in interfirm relationships. Furthermore, given the differences of cultures, we should not expect interfirm adaptations to be exactly the same universally. Specific cultures may have specific rules of the game and codes of behaviour for interfirm adaptations. Put in another way, interfirm adaptations may have different flavours and styles in different cultures. Hence, the existing metaphors’ ignorance of culture’s impact on interfirm adaptations is a grave oversight. Culture’s consequences need to be investigated.

Culture can be studied at different levels, such as national, regional, organisational, gender, social class, generation, and so on. In particular, national culture provides a robust answer to business management behaviour and therefore has been increasingly favoured in the management literature (Adler, 1991; Ferraro, 1990; Gesteland, 1998; Hofstede, 1980; Lewis, 1996; Trompenaars, 1994; Weinshall, 1993). The link between national culture and interfirm adaptations is what this article focuses on.
Chinese culture

China is the world’s oldest civilisation, with a 5000-year written history. The essence of the traditional Chinese culture is considered to reside in the philosophical traditions of Confucianism and Taoism (de Bary, Chan, & Watson, 1960; Fung, 1966; Kirkbride, Tang, & Westwood, 1991; Tang, 1991; Weber, 1951). Confucianism is a form of moral ethic as well as a practical teaching of interpersonal relationships, while Taoism is concerned with creativity of life and harmony with nature.

How the traditional Chinese culture shapes the Chinese mentality in business and management has been explored in a number of writings (see, e.g., Blackman, 1997; Chen, 1995; Child & Markoczy, 1993; Chu, 1991, 1992; Fang, 1999; Lockett, 1988, 1990; Pye, 1982). A common thread that runs through all the discussions is the relationship approach that the Chinese business people take in doing business. Fang (1999) constructs a model of Chinese business culture in which Confucianism and the Chinese stratagems (with philosophical roots in Taoism) are identified as the two indigenous Chinese cultural forces shaping the Chinese business mindset. The Confucian tradition can be understood in terms of moral cultivation, the importance of interpersonal relationships, family orientation, respect for age and hierarchy, avoidance of conflict and need for harmony, and the Chinese concept of face. The Chinese stratagems refer to the traditional Chinese schemes with which the Chinese cope with various kinds of situations to gain material and psychological advantage over the opponents.

Confucianism sees the human world through the lens of the Five Cardinal Relationships known as Wulun in Chinese, i.e., the relationship between the ruler and subject, father and son, husband and wife, elder and younger brothers, and between senior and junior friends. Confucianism never defines any interfirm or interorganisational relationship but rather views all kinds of relationships in human society from the interpersonal relationship perspective. The upshot is that the Chinese do business with you as persons, not as organisations. This implies that, in Chinese eyes, interfirm adaptations are essentially interpersonal adaptations.

All the five relationships defined by Confucianism feature reciprocity. Confucianism demands the junior’s loyalty, filial piety, obedience and respect. Yet the senior must be self-righteous, benevolent, charismatic and loving to enable the junior to become loyal, filial, obedient and respectful. If not, the junior can disobey and even rise up to choose a better senior. Mencius (in Chan, 1963, p. 76), a great Confucian philosopher second only to Confucius, writes:

If a ruler regards his ministers as his hands and feet, then his ministers will regard him as their heart and mind. If a ruler regards his ministers as dogs and horses, his ministers will regard him as any other man. If a ruler regards his ministers as dirt and grass, his ministers will regard him as a bandit and an enemy.

Yang (1957, p. 291) elaborates the Chinese notion of reciprocity by looking at the Chinese word bao (or pao in his original text) which possesses a wide range of meanings such as “to report,” “to respond,” “to repay,” and “to retaliate”:

The center of this area of meanings is “response” or “return,” which has served as one basis for social relations in China. The Chinese believe that reciprocity of actions (favor and hatred), reward and
punishment) between man and man, and indeed between men and supernatural beings, should be as certain as a cause-and-effect relationship, and, therefore, when a Chinese acts, he normally anticipates a response or return. Favors done for others are often considered what may be termed "social investments," for which handsome returns are expected.

In Chinese culture, trust and depth of relationships are not universal notions but highly reciprocal, situational, dynamic, and context-related. This is why Fukuyama (1995) calls Chinese society a "low-trust" society, where trust is high inside but low outside ingroup borders.

It is also through the Chinese notion of reciprocity that we see the Chinese stratagems, or the manipulation of the century old Chinese tricks, ploys, and tactics at work in Chinese business behaviours. Chinese business people can be both sincere and deceptive when dealing with their counterparts, depending on the level of trust and how favours are reciprocated. Therefore, the Chinese can use the "coop-comp" (both cooperative and competitive) negotiation strategies in doing business (Fang, 1997, 1999).

The foregoing discussion about Chinese culture suggests that given its fundamental influence, the Chinese follow the principle of reciprocity in handling all kinds of relationships. The adaptations by the Chinese to the other party in the interfirm relationship may not be based on any rational thinking but on the Chinese value of reciprocity. In other words, how the Chinese adapt themselves to the other party depends on how the other party adapts themselves to the Chinese. This is proved by an empirical case presented below.

**A case of shipbuilding negotiations**

For IMP scholars, negotiations of large industrial products, where intensive face-to-face interactions, adaptations, and other process features are a remarkable empirical phenomenon, have always been an inspiring source of theory building. The empirical base of this study is a series of negotiations of shipbuilding projects which took place in 1996 between the Chinese shipyard C (shipbuilder) and the three shipping companies (shipowners) in Scandinavian countries, respectively: D in Denmark, N in Norway, and S in Sweden. In the scope of this study, the shipbuilding negotiations also involved C’s negotiations with two ship classification societies, namely, NOR (a ship classification society in Norway) and LL (a ship classification society in U.K.).

In October 1997, the author paid a two-day visit to D and conducted a series of interviews (total seven hours) with D’s Vice President & Technical Director, Sale & Purchase Manager, and Newbuilding Project Manager, who were the key members on the Danish team once negotiating with the Chinese. D’s internal new letters in connection with the negotiations were also studied. In December 1997, the author conducted a six-hour in-depth interview with Mr. Q, a former chief Chinese negotiator in C’s shipbuilding negotiations with Scandinavians, during his business trip to Oslo. The author chose to interview the Danes and the Chinese as the major informants, because their interaction provides an overall understanding of the related Scandinavian shipbuilding projects in this study (i.e., C-N, C-D).

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1 The names of the shipbuilder, shipowners, ship classification societies, and individual negotiators involved in the case are fictitious, for the sake of confidentiality.
C-S and C-NOR negotiations). The interviews were all of an open-ended nature; they were all taped and carefully noted.

Empirical background

China is the world’s third largest shipbuilding nation, after only Korea and Japan. Scandinavian countries are among the world’s leading shipping nations. The Chinese shipyard C brought home from Scandinavia three newbuilding contracts to build chemical tankers of 8,300-13,600 deadweight tons (1 for N, 3 for D, and 1 for S), with the total contract value worth around U.S.$ 100 million. All the important negotiation sessions took place in Norway, Denmark, and Sweden. The first contract involving the construction of one chemical tanker was signed between C and N in June 1996. C won the contract in tough competition with Japanese and Koreans because of its more attractive ship design (an outsourced product from a leading Norwegian naval architecture consulting firm) and cheaper price. It was agreed that NOR classified the vessel.

The second contract, regarding three chemical tankers, was signed between C and D in August 1996. These three vessels were also of the Norwegian design which was outsourced by C. This time, while the design and price still remained a major competitive advantage for the Chinese in comparison with those of the Koreans and the Japanese, the positive word of mouth from N helped increase D’s confidence in C’s ability to build technology-intensive chemical tankers. These three Danish vessels were classified by LL instead of NOR.

The third contract the Chinese signed in their Scandinavian tour was that with the Swedish shipowner S in the autumn of 1996. The vessel was a sister vessel of the Norwegian vessel that the Chinese, at that time, had already started constructing in Shanghai. The negotiation between C and S was largely ceremonial—this was a result of the positive word of mouth from N and D, and almost exactly the same design as that of its Norwegian sister vessel. This time, it was agreed that the Swedish vessel would be constructed in conformity with the NOR’s rules and regulations.

Figure 1 shows the actors in the scope of this study and their interactions. Shipbuilding is a complex and time-consuming process. For the shipowner, it usually takes 5-6 years to plan a newbuilding project, negotiate the contract, supervise the construction processes, and finally take over the vessel from the shipyard and put it into operation. For the shipyard/shipbuilder, the shipbuilding negotiation involves not only negotiations of the contract and technical specifications with the shipowner but also those with the classification society, insurance company, and marine equipment suppliers from around the world who are often connected to one another in the whole shipbuilding project. A chemical tanker of the size discussed in this study would take 2-3 years to construct after the signing of the contract. After a classification standard (e.g., NOR, LL, or others) is selected by the shipyard, the selected classification society will send its site supervisors to the shipyard to approve the drawings and plans and supervise the whole construction processes. After the vessel has passed the final inspection, this classification society will issue a certificate to the shipowner to certify that the vessel is seaworthy and ready for delivery to the shipowner. The whole shipbuilding process suggests that the shipyard, shipowner, classification society, and other actors have to interact with, and adapt to each other intensively throughout the contract negotiation and shipbuilding.
construction processes. Three major adaptations that the Chinese shipyard has adopted during its negotiations with D and NOR are described in detail as follows.

![Figure 1 The shipbuilding case: Actors and their interactions](image)

**Adaptation 1:** The Chinese shipyard C agreed to the Danish shipowner D's request to change the main engine from the medium-speed type to a low-speed alternative even though the change would involve a great amount of work of a technological and management nature for C.

Several months after C and D signed the shipbuilding contract (including the technical specification), D asked to modify the contract by changing the main engine from the agreed medium-speed type to a low-speed version (MAN/B&W 6S42MC). A more cost-effective vessel was the main reason behind D's desire to change the contract. The main engine of a vessel may be compared to the human heart. To change the main engine would cause a great amount of work of both a technological and management nature on the part of C. The Chinese negotiator, Mr. Q, detailed some of the major technical adjustments related to the change of the main engine. He said:

First, the weight of the vessel would be increased. Consider that the low-speed main engine body itself was heavier than the medium-speed main engine body by almost 50 tons. This means that the deadweight of the vessel would be decreased by 50 tons accordingly. Second, we would need to design some more daily fuel oil tanks if a low-speed main engine was adopted; this in turn would increase steel structures and space. Third, the low-speed main engine was greater in length. We therefore need to calculate whether the engine room would be able to accommodate it [the new engine]. Fourth, a number of auxiliary systems were to be changed too. For example, the cooling system was to be expanded, oil heating equipment needed to be connected to the oil separating system, since heavy diesel oil would be used [for the proposed low-speed main engine]. Altogether, we had some 12 issues which needed to be discussed with the shipowner if it wanted to change [from the medium-speed main engine] to the low-speed main engine.

Despite all the foreseen and unforeseen difficulties, the Chinese agreed to D's request. When asked why they did so, Mr. Q replied:

This was, as we Chinese put it, "If you honour me a foot, I will honour you ten feet in return." Earlier I have said that M [D's Vice President and Technical Director] had made a very good impression on our shipyard, P [D's Sales & Marketing Director] too, in the whole of this project. In normal cases, a shipyard can refuse to accept such a request to change the type of main engine, as suggested by the


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Danish shipowner, because the contract has already been signed. The shipyard may simply say “No,” and you can do nothing about it. If you shipowner insisted that I make the change, I would say, “OK, 2 million US dollars.” There is nothing to be discussed, because the contract was signed and binding. But we did not do business in this way, because “If you honour me a foot, I will honour you ten feet in return.”

As such, the Chinese adapted positively to the demand of the Danish shipowner simply because the latter had earlier made a good impression on the Chinese and helped them to solve their problems. In Chinese terms, D had previously honoured C “a foot” and it was now C’s turn to honour D “ten feet in return.” When asked “How did they honour you a foot?”, Mr. Q answered:

I always said that M was a very reasonable man. Take an example. By oversight, we had not discovered that the vessels’ painting work, according to the specification, was a job that we would not be able to accomplish in reality. The specification prevented us from carrying out any welding work once the painting was finished. In other words, we were not permitted to paint the vessel before it had been completely constructed. ... Our shipyard lacked experience at that time; the person who was responsible for painting didn’t realise this problem when proofreading the specification. I talked to M about my problem. Then, M said: “OK, I agree to change to [the method of] sectional painting, without price adjustment.” His short answer had helped solve a big problem for our shipyard, a problem that could not be solved otherwise. Any shipowner has the right to refuse to accept a vessel that is not built exactly to the technical specifications. You simply can’t pass the inspection, because your painting is not done in accordance with the contract. So, when M wanted us to change to a low-speed main engine, we responded to him in a very cooperative and active way.

According to the Chinese, C and D had established a high level of rapport and a strong “cooperation spirit.” This was because C had got a very good impression of M, D’s vice president and technical director, who had previously helped C to solve its painting dilemma. In other words, D had previously agreed to C’s request to modify the contract to make it easier for the latter to do the painting work.

Mr. Q also mentioned that M had once helped him “personally” in the negotiation of the Danish project. The story started with the negotiation between C and NOR regarding the classification of the Norwegian vessel.

It was in June last year [1996] when we were negotiating the Norwegian vessel. The vessel was to be classified by NOR. As a matter of fact, NOR was the only classification society that was endorsed in the specification. When we discussed the price, NOR [Shanghai] insisted “U.S.$ 240,000” [for this vessel of 8,300 DWT]. Since then, I have had many discussions with the NOR Shanghai Office. I told them that the price was too high. They asked for my expectation. I said U S $ 200,000-220,000, about 1% of the price of the vessel. LL gave me a “U.S.$ 210,000” offer, but unfortunately we couldn’t talk further about it. ... NOR’s trump card was: You had already signed the specification in which NOR was the only recommended classification society, you couldn’t escape.

Mr. Q continued:

Then, I went to the NOR Shanghai Office, together with five other people from our shipyard, for the final meeting. ... Now all other parts of the commercial negotiations were finalised except for the price. “This is the first time I do business with NOR,” I said to the NOR Shanghai representative, a

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2 Technical specification forms part of the shipbuilding contract.

3 All the price indexes shown in this article have been readjusted for the sake of confidentiality. “DWT” stands for deadweight ton.
Hong Kong Chinese, and to his assistant, a Shanghainese. "You all know our Chinese customs. Today, I would be heartily grateful to get even the slightest discount from you. I would see it as your giving me a *mianzi* ['face']." Then, we were all sitting in silence, face-to-face, with the Shipyard's six people on one side and NOR's two people on the other side of the table. About 30 minutes passed like this. Then, he [the Hong Kong Chinese] broke the silence: "U.S.$ 240,000. Not a dollar's discount!" I took out my pen gently and put my signature on the contract. "I agree with you, U.S.$ 240,000," I said. After signing the contract, they invited us to stay to have a dinner together. "No," I replied, "I do not have time. I must go." But I also said, "I don't know if my colleagues would like to stay. I can ask them." Remember: I was the team leader; if I wanted to go, who else would dare to stay to eat? We all left. ... As such, I declined the dinner. When leaving, I told them [NOR managers] clearly: "Your price is too high. It seems that we will not be able to have any chance to serve you in the future."

The Chinese felt they had lost face badly in their encounter with the NOR managers. The last sentence by the Chinese signalled that they did not want to do business with NOR in the future. The story went on.

**Adaptation 2:** The Chinese shipyard C stood firm, not accepting NOR as the vessels’ classification standard, even though NOR’s price was eventually reduced to the level lower than that of its competitor LL.

Now the time came for the Chinese shipyard C to negotiate the newbuilding project with the Danish shipowner D. Which classification standard was to be adopted, NOR, LL, or others, was an issue that had to be agreed upon between C and D. Because the Chinese felt that NOR’s representative had, in the Norwegian project, made them lose face—a terrible shame in Chinese culture—they decided to use LL, not NOR, this time. But this had to be realised by a proviso in the shipbuilding contract that allowed the shipyard to make a choice among various classification societies. Mr. Q recalled:

Then came the project of the three Danish newbuildings in August last year [1996]. I was about to negotiate the shipbuilding contract with the Danish shipowner. NOR [Shanghai Office] got the news. The Shanghainese phoned me, asking if they could make an offer. "Of course," I said. And I described the general outline of the vessels. NOR said that because the shipowner was from Scandinavia, it was most likely that they would want to have their vessels classified by NOR. I asked them to make an offer first. In the meantime, I sent an inquiry to LL. Not long after, two offers arrived: NOR offered U.S.$ 380,000 and LL offered U.S.$ 210,000. This was the per vessel price for the 3 vessels. Then, [we] went to [Denmark to] negotiate with D. I talked to M about the vessels’ classification issue. I told the story of NOR in [the negotiation of] Norwegian contract. I expressed my discontent with NOR. I said I had to modify the provision of the specification to the effect that a choice can be made [by the shipyard] between NOR, LL, or the equivalent as the vessels’ classification standard. ... Why was I so annoyed? Because NOR did not give me face. In other words, NOR utilised the fact that they were the only option in the specification to corner me into an indefensible position. This was not an issue of my own feeling but concerned my shipyard’s feeling. ... I felt that NOR looked down upon the Chinese; they went too far. Lao M understood me very well. After I told the story he said, "No problem. NOR and LL mean the same to us. We can accept both." As such, the specification was signed which allowed our shipyard to choose between NOR, LL, or the equivalent. Then, I sent a fax [to NOR]: "Dear NOR, we have signed the agreement with the Danish shipowner. Now, it’s high time to discuss one of the most important issues—classification. Your offer has already been received. Thank you very much. Would you please consider reducing your price because your price is higher than that of LL."

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4 "Lao" means "old" or "senior" in Chinese.

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From the shipowner’s point of view, NOR and I.I. meant pretty much the same. However, the shipbuilding contract between C and D, which allowed C “to choose between NOR, I.I., or the equivalent” as a classification standard, provided C with an opportunity to take a handsome revenge upon NOR.

NOR managers approached the Chinese for the Danish project. But the Chinese had long set out to offend them. Mr. Q said:

Now, the NOR Shanghai Office was managed by a Norwegian who once was NOR’s regional manager in Dalian. This general manager and his assistant, the same Shanghainese as before, came to our shipyard one day at about 11 o’clock. I was sitting in a meeting. When I was informed that the general manager of NOR Shanghai Office was looking for me, I realised immediately what it was about. I wanted to show my discontent. But out of limao (“courtesy”), I asked my colleague to tell them to wait 15 minutes or so because I was in the middle of an important meeting. The two gentlemen were then left alone to cool their heels in the waiting room. In fact, I could have stayed away from the meeting, which was not as important as I told them. About 15 minutes later, I came out to meet the gentlemen. He [the Shanghainese] introduced his new boss to me and we exchanged a few courtesy words. They certainly felt I was fairly cold. They then asked me about the progress of the project, the agreement with the Danish shipowner, etc. I told them what was going on and said I was now handling four contracts, the first two of which were already concluded: the shipowner contract, the design contract, the ship classification contract, and the ship insurance contract. The last one, the ship insurance contract, was no panic; it was still not yet on the agenda. Then, the gentlemen said, “How about going out to eat together?” I replied, “No necessary. If you talk business, we can do it right here.” “Yes, we are here to talk business, but we can still eat and talk,” they persuaded me. Then I said, “Let’s do this way. You come to visit me; you are the guests and I am the host. I will entertain you in our shipyard.”

Mr. Q. continued:

Then, I phoned the shipyard’s general office, asking them to arrange three working luncheons for me. To be frank, I had never entertained my guests to a working luncheon before. Whenever I received guests, I always did it in decent restaurants, never in the works canteen. … This time, I would say, I intended to offend them. I placed them on a low-ranking shelf, and myself with them. We went to the works canteen. It was a canteen for site supervisors and service engineers from overseas. Many of them were dressed in rather oily working clothes. I was in casual clothes that day. But the two NOR gentlemen were both in suits. The working lunch standard was eight yuan² per person: several dishes, a bowl of rice, a bowl of soup, and a bottle of coke. … Looking around the pretty noisy and “working clothes background,” the NOR general manager certainly realised that something was wrong. So did the Shanghainese assistant, who told me at once that NOR had not treated me well before, or something like that. To this, I did not reply “Forget it.” I said: “Never mind.”

He went on:

Then, I told the Shanghainese: “You are Chinese too. You know the Chinese seldom hate or love a person too much. What the Chinese do is li shang wang lai ["A gift needs to be reciprocated.” “ Courtesy demands reciprocity”). You remember: li shang wang lai.” Here, the word li means not only “gift,” but also something negative, an insulting action, a disrespect, or a blow from the opponent, to name a few examples. Then, they asked me about the price offered by LL. I said: “Sorry, this is a commercial secret. You shouldn’t ask such question and I am not in a position to answer this question either. I can let you know that the LL’s price is on my office desk right now. You just do your best.” … They whispered a while. Then, the Shanghainese said to me: “U.S.$ 300,000,” looking straight into my eyes. I smiled. I said: “What I need is not a verbal promise but a written one. You may say 300,000 today, but say ‘I forget it’ tomorrow. To whom would I turn for

³ U.S.$ equalled approximately 8.8 yuan (RMB).

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help then? I must have your offer in writing.” ... After the lunch, we went to the shipyard’s foreign guests’ house to drink tea. I answered their questions one by one except for those about the LL’s price. They certainly found me annoying. Finally, before leaving, the Shanghainese said: “If U.S.$ 300,000 is still too high, would you give me a hint please. We can do U.S.$ 240,000.” I smiled without saying a word. I asked him to send me a written offer. ... That evening, he did send a fax to my home: U.S.$ 220,000 per vessel.

Now, NOR had substantially reduced its price from the previous U.S.$ 380,000 to U.S.$ 220,000 per vessel. This offer was very close to LL’s U.S.$ 210,000. But the Chinese stood firm. Mr. Q recalled:

Yes, very close. But I told him [NOR manager] that I have almost decided to use LL. Then, he asked me how much LL had offered. I said: “I can tell you now, U.S.$ 210,000 per vessel.” Three days later, he sent a fax to me again, offering U.S.$ 210,000 for the first vessel, and U.S.$ 180,000 for each of the two sister vessels. They also invited me to their office. I went to the NOR office, this time together with almost the same group of people as the last time. Before going, I told my colleagues that I would not sign any contract with them [NOR] on that day. I asked them not to make any preparations, because I would use LL this time. At the NOR Shanghai Office, the NOR people told us that it would be best to use the NOR classification, since NOR was already used for an earlier [the Norwegian] vessel at our shipyard. This allowed them to be able to offer very cheap prices for the rest of the vessels. And this was also why the price for the Norwegian vessel was relatively high and those for the Danish vessels were relatively low. They had clearly prepared for the meeting and put forth many reasons. They also admitted that several paragraphs in the Norwegian contract were not very fair to the shipyard. For example, the shipyard had to pay extra salary for the NOR supervisors’ overtime work at the shipyard. ... The general manager told me frankly that they knew they had made a big mistake [regarding the Norwegian vessel]. But the contract was signed, he had no mandate to adjust the price. The only thing he could do at this moment, however, was to cancel those two “overtime salary” paragraphs. Then, he cancelled the paragraphs and we both initialled the contracts. The general manager said: “This is the only compensation I am able to make.”

Mr. Q continued:

Now I felt the need to say a few words, in English, to the general manager. But I changed my mind, because few of my colleagues understood English. I told the Shanghainese “I will speak Chinese and you help to translate.” I said: “Indeed, our cooperation for the first vessel was very unpleasant. I had never met a person who treated me so poorly. I viewed the matter not from the perspective of my personal mianzi, but from the perspective of the shipyard’s mianzi. My feeling was when NOR was in an overwhelming negotiation position, it could give an unmerciful blow to its counterpart. This was what I did not understand most. The Chinese attach great importance to the word “li.” But I had not experienced it from you. I can tell you definitely that I will use LL this time, even though your price is lower.” Then, the Shanghainese wondered why I decided to use LL instead of NOR and how I could justify my decision. I replied: “I can say that your price is lower but your service is worse than that of LL. ... You may make a report to the shipyard director, complaining about me selecting LL even though its price is higher than yours. But I believe if you did so, you would lose our shipyard for good. ... This time, what I want is to give you a lesson about how to deal with Chinese shipyards, and how to deal with the Chinese. You [the Shanghainese] are a Chinese, you should help them [Western people] to deal with the Chinese, not just to make money on the Chinese. I hope you translate my words over [to the general manager].” He did the English translation word for word from my original words. [I knew] because I understood English. The general manager looked very awkward. He apologised again and again. He said: “I am so sorry. Mr. KK [the former NOR representative in Shanghai] made an unforgivable mistake. ... I have lived in Dalian for three years and I know how to do business with the Chinese. Had I been the person to negotiate with you that day, I would never have done it that way. ... I would try to give you face”

Mr. Q went on:

That evening, NOR invited us to dinner and we all attended. We ate although we did not reach any agreement with NOR. I did not make a secret of my point; the reason why I did not sign the contract this time was simply because you pushed me too hard the last time. I took revenge on you. This was yi ya huan ya ("a tooth for a tooth").

Interestingly, the last time, they reached the agreement (on the Norwegian project) at the negotiation table, but could not get together at the dinner table. By contrast, this time, they did not reach any agreement (for the Danish project) at the negotiation table, but they could get together at the dinner table. At this moment, the Chinese began to recognise and accept NOR's sincerity. Rapport and trust were beginning to be built. This was a welcome sign for the future cooperation between C and NOR.

Adaptation 3: The Chinese shipyard C chose to use NOR's classification standard and did not bargain over the price at all, even though it was likely to be lowered considerably.

Now, the Chinese shipyard C was going to sign the shipbuilding contract with the Swedish shipowner S. Mr. Q recalled how he decided to let NOR do this business in their third encounter. He said:

Then followed the newbuilding project for the Swedish shipowner. First, this was a sister ship to the Norwegian vessel. Second, I did not want to go too far. If I insisted on the wording "LL, NOR, or the equivalent" [but finally chose LL], I believed the Swedish shipowner would 100 percent agree with me. But, I did not act in this way. Before I went to visit Sweden, I phoned NOR. It was that Shanghainese who answered the phone. I said I was going to Sweden to sign the contract. The vessel was of the 8,300 DWT type [the Norwegian vessel type]. My feeling was to use NOR, not LL, this time. Because this was about a sister vessel. "Would you please consider giving me an offer to increase my confidence in making this decision?" I asked. He understood my meaning immediately. ... I was to leave for Sweden in a week. I hoped to receive their fax before my departure. I told him that LL had contacted me a number of times. But I had not said OK yet. This time, I might also put LL on it [the specification] but I thought I would use NOR anyway. Taking revenge should not go too far. Once you have let him know your strength, you should try to get along with him. What I tended to employ was en wei bin shi ("Apply the carrot and stick judiciously"), or in other words, [the tactic of] using the carrot plus the stick. One must never chase one's opponent to nowhere. He continued:

I received the offer from NOR before my departure: U.S.$ 180,000. I believed I could further reduce the price to the U.S.$ 160,000 level. A normal situation would allow a 60 percent discount for sister vessels. But if various kinds of costs were included, U.S.$ 120,000 for the second vessel would be reasonable. But consider this time, the shipowner was new, although the vessel was of the same type. So, the shipowner might regard the vessel as a new vessel anyway. That's why I said U.S.$ 160,000 would work. But I did not haggle over the price with NOR. I knew that if I used LL, the price would certainly be around U.S.$ 210,000, because this was a new vessel for LL. LL had to examine and approve all the drawings from the beginning. So, my method was to give you a mianzi and make you feel comfortable. I knew I couldn't give this business to LL anyway, and I did beat you too hard the last time. I must let you be comfortable in order to thaw our relationship. The bottom line was your Norwegian vessel was being built in our shipyard; if you really became too upset and made trouble for the shipyard in the supervision process, we would have an even harder time. So, whatever style was adopted, en ("carrot") or wei ("stick"), the purpose was he wei gui ("peace and harmony"). This was my ultimate purpose.
Finally, the dinner was arranged and the contract was signed between C and NOR in a harmonious atmosphere. The parties have since had a very good business relationship, Mr. Q said:

After I came back from Sweden, the NOR general manager and the Shanghainese invited me out to dinner to welcome me back. I informed them of the changes that would be made on the vessel, etc. The previous [Norwegian] contract could be used almost at once after the change of price to U.S.$ 180,000. “OK,” I said, “I will not counter offer your price. I believe I can lower your price by U.S.$ 20,000-30,000, but I won’t do that. What I have wanted to do is to let you understand how to deal with the Chinese. What is the most important is guanxi ["relationship"], xianghu zunzhong ["mutual respect"], and xianghu peihe ["mutual collaboration"]... Finally, the contract was signed at the NOR Shanghai office. Our very good relationship has been maintained to date.

Analysis

The three interfirm adaptations shown in the empirical case concern technical adaptation (change of main engine, Adaptation 1) and commercial adaptation (price adjustment, Adaptation 2 and 3). In Adaptation 1, the Chinese adapted, despite the great amount of work to be involved, positively to the Danish shipowner’s request to change the main engine type because the latter had previously helped the former solve their big painting problem. In Adaptation 2, the Chinese adapted negatively to the NOR’s price offers because they felt that the NOR representatives had made them lose face in an earlier business. Finally in Adaptation 3, the Chinese adapted positively to the NOR’s offer because they had sensed the sincerity shown in the new NOR manager’s apologies and his immediate cancellation of the two unfair paragraphs in an old contract. In addition, the Chinese believed one should never corner his opponent into nowhere, as the chief Chinese negotiator put it, “Taking revenge should not go too far.”

The case shows that the patterns of interfirm adaptations that the Chinese have displayed can hardly be explained by either of the existing “five metaphors” for understanding interfirm adaptations. Did the Chinese shipyard respond to the other parties based on the thesis of investment/cash flow? rational decision-making? political process? learning/socialisation? or evolution? The answer is no. One may argue that the “investment metaphor” seems to be suitable for explaining the Chinese way of adaptations. This might be true as far as the positive adaptations (like Adaptation 1 and 3) are concerned, since these adaptations could more or less be seen as a kind of investment by the Chinese in their business relationships with the other parties. However, using the “investment metaphor” to explain Adaptation 2 would sound awkward, since the Chinese side had no desire to continue to do business with NOR at that point and their relationship was about to break off. Furthermore, the “investment metaphor” does not gain support from the empirical evidence. In the case and throughout the interview, the Chinese negotiator did not explain the Chinese way of doing business from a perspective that could be labelled “investment.”

One may also speculate that the “socialisation/learning metaphor” could work. But this metaphor can hardly make a sense either. As noted earlier, the “socialisation/learning metaphor” refers to “the process of learning how to behave properly.” However, in neither of the three interfirm adaptations did the Chinese adaptation style prove to be an outcome of
certain learning processes. What the empirical case tells us is that in each interfirm adaptation, the Chinese acted in a natural and spontaneous manner based on the Chinese value of reciprocity which was already rooted in the Chinese mind. In the case, the Chinese did not learn; they taught. For NOR, the dramatic adaptations made by the Chinese side (see Adaptations 2 and 3) certainly helped them learn how to do business with the Chinese in their future encounters.

The empirical case reveals that there exists a coherent logic behind the Chinese style of interfirm adaptations: the Chinese adapt to the other party based on the Chinese value of reciprocity in handling relationships. This Confucian value is well illustrated in the two Chinese sayings cited earlier by the Chinese negotiator in this article: *Ni jing wo yi chi, wo jing ni yi zhang* ("If you honour me a foot, I will honour you ten feet in return") or "If you dishonour me a foot, I will dishonour you ten feet in return") and *Li shang wang lai* ("Courtesy demands reciprocity," “Deal with a man as he deals with you,” or “A gift needs to be reciprocated.”).

Interestingly, the Chinese negotiator paraphrased the meaning of Chinese word *li* (“gift,” “courtesy”) from both positive and negative points of view Li shang wang lai thus allows the Chinese to negotiate cooperatively and sincerely on the one hand (see Adaptation 1 and 3) and competitively and deceptively on the other hand (see Adaptation 2) in business processes, without transgressing the Chinese moral principles. This suggests that the Chinese view cooperation and competition not as discrete negotiation strategies but as highly combinative ones which may be alternately used to reach the ultimate state of harmony. This strategy can be called the “coop-comp” Chinese negotiation strategy (see also Fang, 1997, 1999).

It should be noted that reciprocity in handling business relationships is no monopoly of the Chinese but applies to most other cultures as well. As noted earlier, Hallén, Johanson, and Seyed-Mohamed (1991) find that interfirm adaptations from one party tend to be reciprocated by interfirm adaptations from the other party. However, what this article is interested in is the fit between culture and interfirm adaptation that the empirical case has shown. The Chinese value of reciprocity is directly manifested in the Chinese way of interfirm adaptations; reciprocity seems to take precedence over other principles (e.g., rational decision-making) in providing a guide for Chinese behaviour in interfirm business relationships.

Other Chinese values that are also evident in the case include moderation and face. The Chinese preference not to chase their opponent too much reflects the traditional Chinese value of moderation (Fang, 1999). The case also shows that face, a Chinese value, is a key issue in Chinese business negotiation process and is critical in the first encounter between the negotiating parties. The sincerity and face-consciousness can be glimpsed from the Chinese appeal: “This is the first time I do business with NOR ... I would be heartily grateful to get even the slightest discount from you. I would see it as your giving me a mianzi.” That NOR did not care the Chinese face resulted in the Chinese retaliation in the business that followed.

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As such, this interpretation of *li* and *li shang wang lai* conveys a more comprehensive understanding of the terms than the “reciprocation of greetings, favours, and gifts” provided by The Chinese Culture Connection (1987, pp. 147-148).

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*in McLoughlin, Damien. and C. Horan (eds.), Proceedings of The 15th Annual IMP Conference, University College, Dublin 1999*
All in all, the empirical case suggests that culture influences interfirm adaptations through values held by the people who are the ultimate operators of interfirm adaptations.

Conclusion

This article has explored the concept of interfirm adaptation from the vantage point of culture. It argues that culture defines people’s behaviour. As behavioural modifications, interfirm adaptations are not immune to the impact of culture. Based on a case study which involves three major Chinese interfirm adaptations in a shipbuilding negotiation process, the article provides an important normative implication for research into interfirm adaptation: Culture drives interfirm adaptations decisively through the values held by the people who are at the centre of interfirm adaptations in business relationships. As a methodology, case study provides a solid base for theory building by way of “analytic generalisation” (Yin, 1994). Using a previously developed theory as a template and comparing it with the empirical results of the case study, we can generate new theory. Given the fact that the empirical finding of the case study in this article does not support the existing theory (“five metaphors”) in interfirm adaptation, the article suggests adding a new metaphor—the culture metaphor—to the list of metaphors to better understand the concept of interfirm adaptation: Adaptation as a manifestation of one’s cultural values.

References


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