International Journal of Conflict Management
Vol. 15, No. 3, pp. 304–334

INSTITUTIONAL DYNAMICS AND THE NEGOTIATION PROCESS: COMPARING INDIA AND CHINA

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This paper develops the argument for analyzing negotiations from an institutional perspective. A major theme of the argument being advanced in this paper is that the institutional perspective provides a more comprehensive understanding of the negotiation process in its entirety. The negotiation process can be broken down into three distinct components, namely (a) the pre-negotiation phase; (b) the negotiating phase; and (c) the post negotiation evaluation. Each of these phases is critically influenced by a specific component or components of the institutional environment. Scott's distinction between the regulative, the normative, and the cognitive dimension of the institutional environment is drawn upon to illustrate the usefulness of this perspective. The framework is applied to assess the similarities and differences between Indian and Chinese institutional environments and their implications for negotiating processes in the countries discussed. Choosing India and China to illustrate the utility of this framework is justified by the fact that India and China are both in the process of transforming their economies, and although confronted with similar challenges, they have dealt with them in very different ways. This comparison is thus useful, not only for illustrating the value of the institutional perspective, but also for understanding the dynamics of the negotiation process in these countries.

Keywords: Negotiation, Institutional designs, Cross-cultural

Note: We would like to express our deep appreciation to the editor Judi McLean Parks for her insightful suggestions and to three anonymous reviewers for helpful comments on an earlier version of the manuscript. Correspondence concerning to this article should be address to Rajesh Kumar, Aarhus School of Business, Fuglesangs Alle 4, DK-8210 Aarhus V, Denmark. (rku@asb.dk)

The objective of this paper is to highlight the contribution of institutional theory in studying negotiation processes and outcomes. We show the relevance of institutional theory through an illustrative example that compares Indian and Chinese negotiating behavior. The goal of this paper is to map the different dimensions of the institutional environment and to outline how each of these dimensions has a bearing on negotiating dynamics. A set of illustrative propositions was developed regarding Indian and Chinese negotiations and negotiation behavior in order to draw out the theoretical and practical implications that derive from the institutional perspective.

The paper begins by outlining the strategic significance of the institutional perspective in studying negotiation processes and outcomes. The different components of the institutional environment are then outlined and, as a prelude to a discussion of negotiation processes in these countries, the significance of comparing India and China is addressed. The paper concludes by explaining the significance of the institutional perspective in studying negotiations and by positing implications for managers seeking to do business in these countries.

Relevance of Institutional Analysis

Focusing on the use of the institutional perspective in studying negotiating processes is theoretically important for a number of different reasons. First, such a perspective highlights the fact that negotiations are not, in essence, non -contextual or ahistorical. In other words, while negotiations are always rooted in the present they are influenced by what looms in the past and are constrained by the shadow of the future. Institutional logic pervades all negotiations, whether or not negotiators are conscious of its impact. Second, the use of an institutional perspective provides a broader framework for examining the negotiation processes than might be the case if solely the cultural frameworks of Hofstede (2001) or Trompenaars (1993) were used.

While the frameworks of Hofstede and Trompenaars are undoubtedly useful in explicating the role culture has in affecting negotiation dynamics, culture is not the only factor in shaping negotiating processes and outcomes. Negotiating dynamics are likely to be influenced by factors such as ideology, bureaucracy, and/or the character of the legal systems extant in a particular environment (Salacuse, 2003). A comprehensive assessment of negotiating dynamics must, therefore, incorporate these other factors as well and this ideally can be accomplished by using institutional theory as a basis for analyzing negotiating dynamics. An institutional perspective also has the advantage of helping to refine theory about negotiating dynamics. If differences in institutions are related to differences in negotiating processes and outcomes, then the more intriguing and legitimate question to ask is which aspects of institutions are crucial in influencing negotiation processes, and under what conditions, do different facets of the institutions matter? The comparative assessment of India and China undertaken in this paper marks the first attempt to make such an analysis for these two particular countries, furnishing the basis for further attempts at making comparisons between other countries.

Finally, it is important to note that scholars have highlighted the importance of institutions in influencing growth and development in a country (e.g., North, 1990; Olson, 1996). Institutions shape predictability and influence the magnitude of transaction costs in a particular institutional setting. Given that negotiation is the mechanism through which economic value is created in a society, the ease or the difficulty with which negotiations can be conducted are likely to influence the pace of economic growth in a particular institutional setting.

Nature of the Institutional Environment

The institutional environment comprises not only individual beliefs and values but also the legal, political, and economic systems within which enterprises have to function (Tinsley, Curhan, & Kwak, 1999). The point of departure for the analysis in this paper is that it is the institutional logic that critically governs the processes and outcomes of negotiations in a given country (Wade-Benzoni, Hoffman, Thompson, Moore, & Gillespie, 2002). As Wade-Benzoni et al. (2002) note, "Institutions create descriptions of collective reality for individuals and organizations: explanation of what is and what is not, what can be acted upon and what cannot" (p. 47). The implication of this statement is as clear as it is profound in that it makes the essential point that the negotiation strategies actors choose to pursue and how they choose to implement them is constrained by their construction of reality. Given the fact that how reality is constructed varies across different institutional environments, it only stands to reason that the negotiation strategies actors pursue are also likely to differ. The negotiating dynamics may, therefore, either facilitate or hamper the ability of foreign investors to maximize value creation in a particular institutional environment.

The term institutional environment refers to the regulatory, normative, and cognitive pillars that underpin the functioning of a society (Scott, 1995). The regulatory dimension outlines the rules that govern economic activity, the normative dimension highlights societal values and beliefs, and the cognitive dimension highlights the implicit assumptions surrounding economic activity. It is important to note, however, that the three dimensions are not entirely independent of one another (Kostova & Zaheer, 1998). Each dimension may simultaneously influence another and be influenced by another. Each pillar of the institutional environment thus has a unique contribution in shaping the negotiating dynamic. As a result, it is imperative that their significance is evaluated individually, which is what this paper attempts to do.

Scott's institutional framework is useful for the analysis attempted in this paper for a number of different reasons. First, it is a broadly encompassing framework that, while considering the role played by culture, incorporates very directly the influence of other variables such as politics and history, which have an important bearing on shaping economic transactions. This is sets it apart from other frameworks, such as that of Schein (1985), Hofstede (1989), or Trompenaars (1993), which while useful in their own right, do not have an overarching frame of reference for analyzing how transactions evolve over time. The value of Scott's framework is further enhanced by its implicit recognition that while institutions

evolve over time, such an evolution is path dependent. Choice and chance both play a role in shaping institutions, and they often interact in non-predictable ways. The incorporation of path dependency in this framework involves the implicit consideration of time as a variable, adding an important value provided by this framework. Finally, this is the only framework that explicitly focuses on issues of *governance,* and given that economic transactions are so intimately tied up with this issue, it is immensely useful in analyzing how *governance arrangements* are negotiated. Scott's framework highlights the fact that *governance arrangements* are often crucially shaped by political and economic institutions extant in a given environment. It is more the *quality of governance* that is crucial than the *particular form* that governance might take in any given situation.

Comparing India and China: The Rationale for the Comparison

Why focus on India and China? During the last decade a considerable amount of work has appeared highlighting the distinctive features of Chinese negotiating behavior (e.g., Blackman, 1997; Fang, 1999; Faure, 1998; Paik & Tung, 1999; Pye, 1992; Weldon & Jehn, 1996; Worm, 1997; Zhao, 2000). In contrast, studies about Indian negotiating behavior are extremely sparse (e.g., Cohen, 1997; Druckman, Benton, Ali, & Bagur, 1976; Kumar, 2004a) and comparative work is more rare still. The author/s have been unable to identify even a single study that explicitly compares the negotiating style of the two countries even though there is a fair amount of work that contrasts Chinese negotiating behavior with that of other East Asian countries as well as with North American and European negotiating patterns.

In addition to explicating the link between the institutional dimension and negotiation processes, a further contribution of this paper is a comparative assessment of negotiating processes in India and China. Virtually no study has attempted such a comparison. This is a particularly glaring omission for a number of reasons. First, both countries face similar challenges of growth and development, and yet their success in coping with these challenges has been highly variable (e.g., Rufin, Rangan, & Kumar, 2003). In 1980, the living standards in the two countries were about the same, but twenty-one years later China's GNP per capita was nearly twice that of India ("Special Report," 2003). Other statistics provide corroborative evidence. For example, multinational firms have invested more than US$ 300 billion in China over the past decade, whereas only US$ 18 billion has been in invested in India (Naik, 2001). Furthermore, China's export earnings are more than six times that of India and its foreign exchange reserves are at approximately US$160 billion. India's foreign exchange reserves, in contrast, amount to US$ 46 billion (Naik, 2001). A study conducted by Kearney of executives from multinational firms highlights the fact that China continues to be the favored destination for foreign investors, unlike India (cited in Pearl, 2000). Another reason for the comparison is that while India and China do have some cultural values in common, there are also differences between the two countries and a lack of cognizance about these differences may lead to making erroneous inferences. For example, scholars maintain that while both India and China are collectivistic, Indian collectivism goes hand in hand with individualism (Sinha & Kanungo, 1997). Fundamentally, the key question is: If the processes and

outcomes of negotiation are different in China vis-à-vis India, then what aspects of the institutional environment create this outcome? Although this question is most immediately relevant for understanding Indian and Chinese negotiating behavior, it has a broader relevance for a cross-national, comparative study of negotiating behavior, as well as for understanding the mechanisms that facilitate or retard economic growth in different institutional settings.

Some caveats are in order, however. Our intention is not to claim that differences in institutional environments are responsible in their entirety for the rapid growth experienced by China vis-à-vis India. Chinese growth and development has no doubt been facilitated by the existence of a large overseas community of Chinese who are willing to invest in the country despite uncertainty. China is also the world's most populous country, which certainly makes it an attractive market; although, in all fairness, it needs to be stated that India is not far behind China in this regard. Proximity to Hong Kong has also helped China in many invaluable ways, as is the fact that the economic reform process began earlier in China than in India. It is also necessary to recognize that once China gained the reputation of being a major manufacturing hub, the effect of its reputation worked to its advantage. Growth and development most often are a product of many variables that interact in non-simple ways, a reality beckoning to be acknowledged.

A major contribution of this paper is that it provides a more encompassing perspective on the negotiation process in that the discussion is not simply confined to the dynamics of the interactional processes once negotiations have commenced. Much of the experimental work on intercultural negotiations looks at interactional patterns without giving equal emphasis to the antecedents and post negotiation consequences. This is limiting inasmuch that negotiations are embedded within a particular institutional environment, and if this environment varies then so will the negotiation process in its entirety. Although the importance of cultural values in shaping negotiating dynamics in India and China are highlighted, the focus of the paper is not exclusively on the cultural element. An attempt has also been made to highlight the importance of how business activity is viewed in these cultures and the prevailing attitude towards foreign investors in shaping the negotiating dynamic. In developing a holistic picture about negotiation processes in these countries, this paper provides the opportunity for scholars to further refine and test a variety of propositions. This should not only deepen our understanding about negotiating in these countries, but it will also contribute to the further development of intercultural negotiation theory and practice.

To begin, the similarities and differences between Indian and Chinese institutional environments are highlighted. Subsequently, the implications of these differences in institutional environments on negotiation processes and outcomes are traced. To summarize, managerial implications are highlighted, and future directions for research are suggested.

Table 1
Dimensions of Institutional Environments

Dimension	India	China
Regulatory		
Bureaucratic hurdles	High	High but can be navigated due to a mutually accommodating relationship between the central government and local provinces
Encouragement of foreign investment	Stated policy is to encourage foreign investment, but there is often a gap between intentions and implementation	A rhetorical commitment towards attracting foreign investment was reinforced by concrete policy measures designed to strengthen the attractiveness of China
Normative		
Mode of thinking	Analytical	Holistic
Behavioral patterns	Individualistic and collectivistic	Collectivistic
Perceptions of Justice	Distributive justice is salient	Distributive and procedural justice are both salient
Cognitive		
Attitude towards business activity	Historically unfavorable	Ideologically favorable, although that may not have always translated itself into a positive attitude towards merchants
Attitude towards foreign investment	Unfavorable due to colonial legacy	Traditionally ambivalent, but the fear of foreign investors is less now

Nature of the Institutional Environment in India and China

Regulatory Dimension

The regulatory dimension encompasses the rules and laws that govern business activity in a society. There are four questions that are especially germane when assessing the impact of rules and laws on business activity. First, are the rules and laws conducive to the promotion of business activity? Second, are the rules and laws that exist implemented effectively and efficiently? Are the laws flexible enough to accommodate the demands of a turbulent business environment? Finally, but equally importantly, is there an impartial judiciary that can effectively

and efficiently adjudicate business disputes that may arise among business partners and/or the business partners and the bureaucracy?

Regulatory Environment in India

Historically, the regulatory environment in India has not been conducive to promoting business activity (e.g., Das 2001; Kumar, 2000). Indian firms as well as foreign investors faced a multitude of restrictions that constricted the pace of economic activity. During the 1960s and the 1970s the Indian economy grew at an abysmal rate of 3–3.5%, a rate that came to be pejoratively labeled as the "Hindu rate of growth." Economic reforms began in India with some earnest in 1991 when the country faced a severe balance of payments crisis. Restrictions on foreign investors were eased. A decade has passed since economic reforms were first initiated in India. Although some progress has undoubtedly been made by streamlining procedures and making the environment more business friendly, analysts note that the pace of reform has nevertheless been slow (e.g., Ferguson, 2002; Pearl, 2000). As Ferguson (2002) notes, "India's post 1991–liberalization has sped along at the pace of the glacier. At times, such as now, the glacier has played hare to India's turtle. To foreign observers the nation can sometimes seem paralyzed, unable to move forward and in danger of stumbling backwards" (p. 47). The key implication of this is that while change may be afoot in India, change is not proceeding at a rate fast enough to cope with the imperatives of a globalizing world.

The government has compounded this problem by its inability to implement policy changes effectively. Several observers have noted that policy implementation is a major problem in the political and bureaucratic culture of India (Rufin et al., 2003; Weiner, 1985). Implementation is either slow, inconsistent, or bogged down as bureaucrats seek to iron out all the wrinkles in the new policy or argue about what the new policy actually means. There may also be a delay between the time that the policy is formulated and the time that it is implemented due to slow or ineffective communication. Compounding the problem is the fact that there are few incentives for bureaucrats to display bold, innovative behavior. Even India's Prime Minister has recently noted, "the rigid mind set of the bureaucracy is obstructing the economic reform process" (cited in Nadir, 2001). The fact that Indians do not work well as part of a larger group only exacerbates the problems of policy implementation (Das, 2001; Gupta, 2002). Bureaucratic infighting, which is a commonplace feature in India, has slowed down the timely and a meaningful formulation and/or implementation of policy (Saez, 1998). The implications of ineffectual implementation are observable just about everywhere. Wolfgang Stewart, the German Consulate General in Calcutta, recently noted that the implementation of a power project requires the foreign investor to seek forty-three clearances at the central level and fifty-seven clearances at the state level ("German Industry," 2001). This is an astounding fact considering that economic reforms were initiated 10 years ago. Along the same lines, India's privatization drive has been excruciatingly slow (Pearl, 2000). Likewise, foreign investment in India's mining sector is being slowed down by bureaucratic obstacles ("Procedural Bottlenecks," 2001).

Although India does have a functioning judicial system, its efficiency and effectiveness have also been called into question by observers (Bharuch, 1998). Delays are an endemic feature of the system. Ferguson (2002) notes that the Indian judiciary has been considering the possibility of allowing foreign law firms to open liaison offices in India, but more then six years have gone by and there is as yet no indication that the issue will be resolved any time soon.

Regulatory Environment in China

Although China is still governed by the Communist party, the ideological orientation of the country has changed dramatically since the onset of economic reforms initiated by Deng Xiaoping. Up until the 18th century, China was the most developed country in the world and accounted for 33% of the world GDP (Segal, 1999). In subsequent years it lost its economic dominance to Western powers, which became economically ascendant. The decision of Deng Xiaoping to open up China in 1978 was an attempt to reengage with the world with the objective of regaining the country's previous economic dominance. This theme has a powerful resonance in Chinese psychology. As Nolan (1995) notes, "China's desire to build a strong and a powerful international economy was intensified by more than a century of economic failure and national humiliation" (p. 161).

The desire to make their position more competitive led the Chinese government to demonstrate more than a rhetorical commitment towards the economic reform process. Foreign investment was encouraged and the authorities were willing to be flexible in dealing with foreign investors. A good example of this is the establishment in the 1980s of special economic zones where an independent authority regulated business and where priority was given to improve the infrastructure (Majumder, 2002). Furthermore, as an incentive for foreign investors, the Chinese government permitted them to import technology, equipment, and components in high priority areas without paying duty (Majumder, 2002), The implications of this policy are evident in a number of different empirical indicators. China has emerged as the world's fourth largest exporter (http://www.tdctrade.com). It is also the third largest producer of computers and peripherals (next only to the USA and Japan) in the world. China's per capita GDP in 2003 was US$ 1,000 whereas India's was US$ 424 (Majumder, 2002).

Although political leadership in China appears to be committed to the program of economic liberalization, the implementation of rules and laws is not necessarily consistent and thus poses problems for foreign investors seeking to do business (Blackman, 2001). First, local governments determine how a law formulated at the central level will be implemented locally. Second, there are contradictions between laws at the central level and those at the local levels. As noted by Blackman (2001, p. 27), one implication is that "foreign investors with ventures in several cities may find each venture subject to different regulations and interpretations." This increases unpredictability and may induce some investors to pull out of ventures in the Chinese market (Smith, 1999). While this undoubtedly is a problem that will persist for sometime to come, it is worthwhile to note that the incentives for Chinese bureaucrats are changing, inducing them to actively foster local economic growth (Li, 1998). Changing incentives imply that it is in the

interests of the bureaucrats to develop a framework conducive to facilitating growth and development. Scholars also point out that the relationship between the central government and the provinces in China is one of mutual accommodation that has created what Mortinola, Quian, and Weingast (1995) describe as a "market preserving federation." What this means is that the central government and the provinces have negotiated the terms for their interaction such that business ventures are no longer affected by the continuously changing relationship between the central government and the provinces.

There is no independent judiciary in China. Administrative and legislative powers are concentrated within the government and the provincial departments (Blackman, 2001). Any disputes that emerge must be resolved with the bureaucrats entrusted with the issue at hand. Blackman (2001) notes, "Within the regulatory system, bureaucrats possess 'inherent power' (in Corne's words) to make and interpret laws, rules, and regulations as long as they are within the 'spirit of the applicable law and the Constitution"' (p. 31). Although this shifts the power to the bureaucrats, its impact is mitigated by the change in incentives available to bureaucrats. Furthermore, the ability to develop a good relationship with the bureaucrats may also lessen, although not completely eliminate, the potential hazards inherent in a system lacking an independent judiciary.

Normative Dimension

The normative dimension highlights the dominant societal values and beliefs that are extant in a given society. Values and beliefs influence the way that individuals perceive the world around them, i.e. they shape their mindset. Organizational and cross-cultural scholars have begun to document the pervasive impact of values and beliefs on how individuals in different cultures conceive of the social reality (e.g., Hofstede, 2001; Triandis, 1995). While cultural values are by no means immutable, and while there may well be intracultural variation, there is an impressive body of evidence demonstrating the impact of culture.

Normative Dimension in India

Our discussion about the normative dimension in India is organized around three sets of issues, namely (a) the Indian mode of thinking; (b) dominant behavioral patterns; and (c) perceptions of justice. These three issues were chosen because they encapsulate the key aspects of culture that are particularly germane for studying negotiations. Culture has been defined by Hofstede (2001) as "the collective programming of the mind that distinguishes the members of one group or category of people from another" (p. 9). Implicit in this definition is the idea that culture influences how we perceive the world, how we behave, and the standards that we use for assessing the fairness of a particular outcome. All of these elements are crucial for studying the negotiation process. How the world is perceived plays a key part in determining how negotiators frame the negotiating situation. Negotiator behavior manifests itself in the kind of negotiating strategies used by negotiators while the standards of fairness determine how satisfied or dissatisfied the negotiators are with their outcomes.

Indian Mode of Thinking

Psychologists have drawn a distinction between a holistic versus an analytic mode of thinking (Nisbett, Peng, Choi, & Norenzayan, 2001). A holistic way of thinking is an experiential mode of thinking which seeks to reconcile multiple perspectives. Analytical thought, by contrast, separates the object from its context and relies on formal logic in deriving propositions. A number of scholars have noted that the Indian way of thinking is analytical rather than holistic in character (Lannoy, 1971; Nakamura, 1964). This suggests, first of all, that there is a general tendency among Indians to strive to solve problems through the use of logic rather than relying on finding some common middle ground. Reliance on logic as the governing principle is only natural because the actors will have sought to obtain the best possible solution and not the solution that may be more easily attainable (Kumar, 2004a). A related implication is that this mode of thinking fosters never-ending debate and argumentation. Individuals find it all too easy to find flaws in the other actors' argument in their search for a mythical ideal that in practice is all but impossible to attain. Although analytical thinking is widespread even within the West, what makes the Indian approach somewhat distinct is an uncompromising approach to problem solving that is rather expansive in nature. In other words, aspiration levels are rather high, shaped as they are, by a grandiose approach to problem solving (Nakamura, 1964) that may only be imperfectly related to empirical reality.

An analytical mode of thinking also fosters a strong moralistic orientation towards problem solving. If the logical solution is indeed the ideal solution then by the same token it also represents a principled solution, deviations from which would not be acceptable. Consistent with this, theorists point out that Indians tend to be highly moralistic in problem solving (Cohen, 1997; England, Dhingra, & Agarwal 1974; Sinha & Kanungo, 1997). Logical solutions tend to be seen from the prism of moralism that imbues rationality with an affective element. In other words, the most logical solution is also the one which generates considerable emotional commitment.

This is a deductive mode of theorizing in which experiential knowledge has a lesser status compared to knowledge derived on the basis of logical principles (Nisbett et al., 2001). A major consequence of this is that the decision makers are unlikely to engage in experiments even when experimentation may well be a prelude to learning. While it is undoubtedly true that not all experiments lead to learning and that people may learn incorrectly, it is likewise the case that without experimentation opportunities for learning may be missed. Exploratory learning (Levinthal & March 1993) may well be a major casualty here.

Dominant Behavioral Patterns

Sinha and Kanungo (1997) note that while Indians may be collectivistic, this collectivism goes hand in hand with a strong individualistic streak. The idea that Indians may embody both individualistic as well as collectivistic tendencies, which may be manifested differently in different contexts, is gaining increasing acceptance in the literature on Indian organizational behavior (e.g., Chatterjee & Pearson, 2000; Derne 2000; Roland, 1988; Sinha & Kanungo, 1997). Conventional

wisdom says that Indians exhibit a collectivistic self when they interact with their family members, but exhibit an individualistic self when interacting with non-family members (Sinha, Vohra, Singhal, & Ushashree, 2002). While it is true that collectivistic societies draw a sharp distinction between members and non-members of the group and behave differently when interacting with a member of the group as opposed to a non-member, some scholars maintain that individualistic tendencies may well be present even in interaction with group members (Das, 2001).

These conflicting behavioral tendencies have a number of implications. First, they suggest that, while personal relationships may be important in India, as they are in other collectivistic societies, they may not be as resilient as may well be the case in other collectivistic societies (Kumar, 2000). Trust among individuals may be based more on cognition than on emotion (McCallister, 1995) and may be more fragile than resilient (Ring & Van De Ven, 1992).

Scholars have also been quick to point out that the Indian temporal orientation is oriented towards the past rather then the present or the future (Gopalan & Rivera, 1997; Saha, 1992). Past achievements are valued whereas present and future achievements are devalued since India has already passed through its "golden period." A key implication of this line of thinking is that Indians may often be passive in coping with the external environment. In a study of Indian civilization, Nakamura (1964) noted that while Indians were prone to excessive fantasizing, they were much more reluctant to act upon their fantasies. The notion of Indian passivity was also highlighted recently in a study of problem solving approaches used by Indian and German students (Strohschneider & Gusch, 1999). The authors assessed how the students in these cultures would resolve a complex computer simulated interactive problem. One key finding in this study was that the Indian participants, unlike their German counterparts, were not proactive enough and/or responsiveness enough to the problem at hand. As the Strohschneider and Gusch (1999) note, "they are more likely to ignore key aspects of the scenario, rely on a purely feedback-controlled strategy, make decisions without having the necessary information available, fail to adapt their interventions to changing circumstances, and forget about effect control" (p. 249).

Perceptions of Justice

Organizational scholars note that perceptions of justice are critical in shaping relationships among individuals as well as the level of satisfaction of individuals with the organization (e.g., Brockner & Wiesenfield, 1996; Tyler, 1994). Theorists have drawn a distinction between two different types of justice, namely distributive and procedural. Distributive justice refers to the perceived fairness of the outcomes, whereas procedural justice refers to the process through which outcome allocation occurs and/or disputes are resolved. Procedural justice has both a structural as well as an interpersonal component. The former refers to the way that the decisions are made while the latter defines the way that individuals are treated. Failure to attain distributive and procedural justice may generate conflict and is often a precursor of negative emotions in negotiations (Kumar, 1997).

It is now recognized that justice norms vary across cultures (e.g., Leung & Bond, 1984; Murphy-Berman, Berman, Singh, Pachauri, & Kumar, 1984; Singh, Huang, & Thompson, 1962). A major finding in the literature has been that in individualistic societies the equity principle is the preferred principle for distributive justice, whereas in collectivistic societies it is need or the equality principle that is the operative norm. Studies conducted within the Indian cultural context have clearly highlighted the importance of need or the equality principle in India (Murphy-Berman et al., 1985; Krishnan, 1987). A more recent study conducted by Pillai, Williams, and Tan (2001) suggests that distributive justice concerns may be more important than procedural justice concerns in India. The idea that distributive justice concerns are salient in the Indian sociocultural context is also nicely illustrated in a study of Chinese and Indian preschool children conducted by Rao and Stewart (1999). The authors found that the Indian children, relative to their Chinese counterparts, were much less inclined to engage in spontaneous sharing. The interpretation is that spontaneous sharing did not occur because of a reluctance to share resources in a cultural context where scarcity is ever so prevalent.

Normative Dimension in China

Chinese Mode of Thinking

The Chinese tend to think holistically rather than analytically (Nisbett et al., 2001). This mode of thinking, which assumes multidirectional causality, accepts ambiguity and is pragmatic in nature. Chen (2002), who describes it as a form of "paradoxical integration," also points out that it presupposes that "the opposites in a paradox are not merely intertwined in a state of tension, but in fact constitute a sense of wholeness" (p. 188). The notion of "paradoxical integration" has a number of different implications. First, it suggests that no decision is ultimately final. All decisions will produce mixed outcomes that will need to be corrected. The one major implication of this is that the Chinese are unlikely to be as psychologically committed to a decision as those relying on a more analytical form of thinking. This lack of psychological commitment may well explain the flexibility of the Chinese in both changing their policies as well as in the disjunction that often exists between the formulation of a policy and its implementation.

Dominant Behavioral Patterns

Students of Chinese society note that China is a collectivistic society (e.g., Hui & Triandis, 1986; Worm, 1997). The deep roots of collectivism in China can be attributed to the dominance of a Confucian worldview. Confucius, for example, stressed the importance of maintaining social order and noted that the family is the building block of social order. Family has a hierarchical order, with the father at the apex. All members of the family have duties and obligations corresponding to the role that they play in the family. For instance, children are required to obey the dictates of their parents and the parents have the corresponding obligation of looking after the welfare of their children. Confucian thinking, which has profoundly influenced how individuals interact, also provides an evaluative scheme

for determining appropriate and inappropriate forms of behavior. Finally, Confucian thinking has also had a profound impact on how individuals manage disputes within a social setting.

There is a widespread consensus among scholars that Confucianism stresses the necessity of developing relationships among individuals (e.g., Liang, 1949; Paik & Tung, 1999; Shenkar & Ronen, 1987). These relationships are particularistic (in that a distinction is drawn between members of the group and non-members of the group) and characterized by long-term asymmetrical reciprocity (Yum, 1994). Intermediaries help in initiating relationships and appropriate behavior sustains them. The successful development of a relationship is very much dependent on the ability of the actors to develop affect-based trust (Chen, Chen, & Meindl, 1998). If successfully developed and maintained, these relationships come to constitute what is often referred to as the *guanxi* network (Tung & Worm, 2001). While the idea of networking and networked relationships is not alien to Western thought, the Chinese conception of networks and networking is qualitatively distinct from that which exists in the Western world (Boisot & Child, 1996). Scholars note that the essential difference between the Western concept of networking and the Chinese concept of guanxi lies in the fact that unlike networking, guanxi is more durable, has a stronger personal element attached to it, and leads to more reciprocal exchange of favors (Luo, 2000; Tung & Worm, 2001).

The concept of face is a central construct in the Confucian worldview. Scholars have drawn a distinction between two Chinese concepts of face, *mianzi* and *lian* (Earley, 1997). *Mianzi* refers to an individual's accomplishments, whereas *lian* reflects on the internal character of the individual, i.e. is the person morally good. In interpersonal interactions it is *lian,* which plays a critical role, in that if a person is morally good the interaction may proceed in a positive way, whereas if the individual is not morally good, the interaction may be doomed from the start. A major theme in the literature is that the Chinese must not be made to loose face, even if the loss of face only happens unintentionally (Kumar & Worm, 2003). Ideally, one must not only avoid causing the Chinese to lose face, but must also seek to give them face.

Shaped by Confucian thought, the Chinese self is an interdependent self (Markus & Kitayama, 1991). The interdependent self, unlike an independent self, is motivated by the desire to be responsive to the needs of others in the relationship. This responsiveness is assessed by the degree to which individuals are willing to fulfill their obligations. If an individual fulfills their obligations, they are considered to be a moral person (Hwang, 1987; Gao, Ting-Toomey, & Gudykunst, 1996). It is likely to reflect well on the person's *lian,* leading to a deepening of the relationship.

Another dimension that also deserves some mention is the Chinese attitude towards time. The Chinese view time cyclically rather than in a linear fashion (Chen, 2002). A consequence of this is that events are not viewed in isolation from each other. Reciprocal interdependence is emphasized, consequently framing situations differently than might have been the case otherwise. The Chinese have also been characterized as being polychronic rather than monochronic in their

orientation with the consequence that deadlines are not adhered to rigidly (Worm, 1997). Finally, the temporal orientation appears to be oriented towards the past rather than present or future.

Perceptions of Justice

A basic finding in the justice literature is that in individualistic societies, equity is the preferred distributive justice rule, whereas in collectivistic societies, the equality or the need based justice rule predominates. This fundamental finding was tested further by Leung and Bond (1984) with Chinese subjects. The authors found that the allocation rule used by the Chinese subjects was a function of whether or not the individual was a member of the group or a non-member of the group. If the individual was a member of the group, the equality principle was used when the individual had contributed less than oneself, whereas the equity principle was used if another individual had contributed more than oneself. The Chinese tended to use the equity principle when dealing with non-group members. Close analysis has revealed that the choice of a justice rule is also dependent on the relationship in question. Leung (1997) points out that the choice of a justice rule is dependent on whether the individual is a peripheral member or a close member of the group. If the individual is only a peripheral member of the group, the equality rule will be used, but if the individual is a member, the generosity rule is likely to be applied. The generosity rule implies that outcomes are divided equally when the other individual has contributed less than oneself, but are allocated according to the equity principle when the other has contributed more than oneself. In either case, it is the other person who either gains what they have contributed or gets more than they may have contributed (Morris, Leung, Ames, & Lickel, 1999).

Cognitive Dimension

The cognitive dimension, which highlights the implicit assumptions governing economic activity, has two major components, namely (a) the valuation of economic activity; and (b) the attitudes towards business people, and foreign investors in particular.

Cognitive Dimension in India

Business activity has traditionally not been highly valued in India (Chaudhri, 1985). This is mainly a product of the Brahmanical worldview, which holds that the deepest level of reality is non-material (Embree, 1989; Jain & Kussman, 1994). The most important goal is to attain liberation, or moksha, from rebirth, which is attained through the purity of one's actions. Wealth maximization (artha) may be important, but its importance is only transient. Work has traditionally been valued less, relative to leisure (Garg & Parikh, 1995; Gopalan, 1997).

It may be argued that some of these values may be in the midst of transition, and especially as a consequence of globalization, technological changes, and economic reforms which began in 1991. While there is merit in this argument, and changes may well be underway, it bears noting that while values do change, the

change is not necessarily rapid or irreversible. The more central a given set of values is, the greater the possibility that this is likely to be true.

Although there is scope for debate about the valuation of economic activity in modern day India, there is little debate about the skepticism with which Indians view foreign investment and foreign investors. The predominantly negative attitude towards foreign investments stem, to a great extent, from India's colonial legacy. The negative attitude towards foreign investors has been reinforced in modern day India by some well-publicized disputes between the Indian government and foreign investors. A high profile public dispute between the state government of Maharashtra and the now bankrupt energy producer Enron is one salient example.

While formal barriers towards direct foreign investment have been reduced, there are continuing concerns about transparency and the vigor with which the new laws are being implemented. Analysts note that second generation reforms are meeting resistance from workers and domestic businesses in India, which may well explain why the government is taking small steps that at times are contradictory (Pearl, 2000). Majumder (2002) notes that xenophobia has shaped Indian policy making towards direct foreign investment. A good example of this is the policy of the Indian government towards the insurance sector. When the Indian government opened the insurance sector to foreign investors, they were limited to acquiring no more than 26% of equity holding. Analysts point out that this decision did not make much sense because launching an insurance company is an expensive proposition and there are few local firms able to come up with that kind of money. estimates, the market could support up to as many as fifty companies. Gary Benanav, Chief Executive of New York Life Insurance Co's international unit, noted, "They've made a decision which I don't think is in the best interests of India, though I understand it. The colonial era has left a few wounds here" (cited in Pearl, 2000, p. A25).

Cognitive Dimension in China

A number of scholars have noted that Confucianism is very much a "this worldly" rather than an "other worldly" ideology (Bodde, 1981; Kumar, 2000; Mote, 1971; Yum, 1994). The "this worldliness" of Confucianism manifests itself in its dominant emphasis on maintaining political and social order. Implicit in this line of thinking is the idea that social and political order is the key to promoting the welfare of the people. Confucius devoted much of his time to exploring the conditions that may promote social order instead of focusing on metaphysical questions dealing with the nature of a so-called "ultimate reality." Although Confucian thought had a "this worldly" character, it did not automatically translate into a consistently more privileged position for the merchant class. From time to time the Chinese emperor and/or his bureaucrats sought to exercise control over the merchants, leading to the migration of the Chinese to South East Asia. Nevertheless, the Chinese did recognize that the merchants did contribute to the welfare of society and cooperation with them was essential for the purpose of maintaining social harmony.

The emergence of a Communist dictatorship under Mao Zedong altered the nature of political and social systems, but it did not necessarily eradicate the

fundamental assumptions governing Chinese society. When Deng Xiaoping initiated the economic reform process in the late 1970s his ultimate objective was really to strengthen the Chinese economy. The point being made is simply this: Although the Chinese state has not consistently been supportive of the merchant class or of commercial activity in general, the state has always had as its strategic objective maintaining the social and political order necessary for a viable economy. Since the initiation of the economic reform process in the late 1970s, the Chinese have continued with the process of economic reforms, although the pace of reform may have varied. More recently, the Chinese have decided to enter the World Trade Organization, although this may clearly involve painful domestic adjustments.

Scholars have pointed out that the Chinese were traditionally ambivalent towards foreign investment due to a fear of exploitation (Pye, 1992). Although this fear has not disappeared it has lessened compared to what it was in the early stages of the reform process. A number of different indicators also reflect this. For example, foreign direct investment now accounts for 47% of the nation's exports (Majumder, 2002). Likewise, more than half of China's major electronic, telecommunication equipment and engineering firms involve foreign equity participation. Analysts note that in recent years China has made a concerted effort to attract foreign investment in high technology industries.

Institutional Environment and Negotiation Processes in India and China

Negotiation, which is an essential feature of all business interactions, entails the creation of value through the initiation of new transactions and may involve, buyer seller negotiations, joint venture or merger negotiations, and/or negotiations between the firm and regulatory authorities (Brett, 2000). This is by no means an exhaustive list, but simply illustrates the fact that transactional negotiations may assume a variety of different forms. Our goal in the following paragraphs is to sketch out the dynamics of transactional negotiations in India and China.

Dynamics of Transactional Negotiations in India and China

Transactional negotiations can be broken down into three distinct phases: (a) pre-negotiation; (b) negotiation; and (c) post negotiation evaluation (Weiss, 1993). The pre-negotiation phase is the phase where the actor or actors make the determination as to whether it is worthwhile to enter into formal negotiations with a specific party. If a negative evaluation is made at this stage, formal negotiations will not be initiated. The negotiation process involves the exchange of information and the transmission of offers and counteroffers by the parties involved. If successful, this leads to a formal agreement among the parties. The post negotiation evaluation phase focuses either on the implementation of the contract or it may lead the negotiators to reshape their expectations and strategy if negotiations have not been a successful (Brett, Northcraft, & Pinkley, 1999). An essential argument is that the differences in institutional environments affect the pre-negotiation, negotiation, and post negotiation evaluation phases of negotiations.

Table 2
Dynamics of Transactional Negotiations in India and China

	India	China
Pre negotiation		
Regulatory dimension	Unfavorable	Moderately unfavorable
Normative dimension	Moralistic character of Indian thinking may increase the transaction costs of negotiations	The need to rely on *guanxi* may increase the transaction costs of negotiations
Cognitive dimension	Unfavourable	Favorable
Negotiation dynamics		
Negotiating goal	Analytically ideal solution	Pragmatically ideal solution
Negotiating strategy	Contending	Compromise
Pace of negotiation	Slow	Slow
Post negotiation evaluation		
Evaluation criteria	Distributive justice concerns	Distributive justice as well as procedural justice concerns
Dealing with unsatisfactory negotiation outcomes	Indians are vocal and communicate their concerns directly	Chinese will be more subtle and indirect in sharing their concerns

Institutional Environment and Pre-Negotiations in India and China

The first step in the negotiating process is for the actors to decide if it even makes sense to initiate the formal process of negotiation with a specific party in either India or China. Although strategic and contextual factors play a part in shaping this decision, the nature of the institutional environment is of no less importance, which is especially true for a firm that may have had little prior experience in operating in these countries. The institutional environment determines the magnitude of the transaction costs that the parties are likely to incur in initiating negotiations (North, 1990). If transaction costs are low, the decision to enter into negotiations will be effortless, whereas if transaction costs are high, the decision may require more reflection.

We have shown that there are clear differences in the institutional environments in India and China. Although firms have to cope with bureaucracy in both

India and China, it poses greater problems for firms in India than it does in the case of China. This manifest's itself in a number of different ways. For example, decisions may take longer in India. Second, even if decisions are made, they may not be implemented speedily or consistently. At the normative level, the strongly moralistic character of Indian thinking may make finding common ground difficult with regulators difficult. In China, which also poses normative challenges, but of a different nature, the challenge is more a behavioral one than a moral one. That is to say, the critical challenge here is to develop *guanxi* with the regulator, which will help in finding common ground. Establishing and maintaining *guanxi* in the Chinese sociocultural context takes time and may therefore enhance the transaction costs for firms seeking to enter this market. The cognitive dimension, by contrast, is relatively more favorable for China then it is for India. The Chinese value economic activity and are more receptive to foreign investment then India. All in all, it would appear that the cognitive dimension appears to be more conducive to doing business in China than in India. The normative and the regulative dimensions, on the other hand, may pose challenges for investors in both of these countries, although the nature of the challenges is evidently different. This leads us to the following proposition:

Proposition 1a: The decision to initiate negotiations in India will necessitate greater deliberations on the part of the foreign investor than the decision to initiate negotiations in China.

Proposition 1b: The time required to conclude a transactional negotiation in India will be longer than in China.

Institutional Environment and the Dynamics of the Negotiation Process in India and China

Negotiation is a process by which the parties seek to arrive at a mutually acceptable agreement and involves a mixture of persuasion, information exchange and/or concession making. Negotiators enter the negotiation with implicitly or explicitly held expectations, engage in a process of information exchange and persuasion and make offers and counteroffers. This leads to one of four possible outcomes, namely (a) no agreement; (b) a victory for one of the actors; (c) a compromise; or (d) a win–win or an integrative solution (Rubin, Pruitt, & Kim, 1994). The point of this analysis is that the negotiation process, given that it involves interpersonal interaction among individuals, is most directly going to be influenced by both the normative and the cognitive dimension. In the following, the impact of the normative dimension on Indian and Chinese negotiating behavior is laid out, thus highlighting the similarities and differences between the two countries.

Negotiating Dynamics in India

The argument that Indians think analytically rather than holistically has been put forward. Analytical thinking, which has a number of implications for how Indians approach the process of negotiations, implies that Indian negotiators enter negotiations with a high level of aspiration that is often rigidly maintained (Kumar,

2004a). Indian negotiators are looking for the "analytically ideal" solution, and while high aspiration levels are essential for attaining integrative outcomes (Filey, 1975), they slow down the negotiation process. In extreme cases, it may persuade the other negotiator to abandon the negotiating process (Pruitt & Lewis, 1975). It has also been pointed out that an analytical mode of thinking has a strong moral component, making it even less likely that Indians will make concessions easily. When arguments tend to be defined along moral lines, the willingness and the ability to consider tradeoffs among competing interests is reduced (Thompson & Gonzales, 1997), leading to the enactment of a contending negotiating strategy.

One crucial implication of this is that when Indian negotiators are unable to attain their aspirations, they make a concerted effort to readjust the expectations of the other negotiators rather than try to readjust their own level of aspiration. A study by Cohen (1997) suggests that Indian negotiators often maintain rigidity in their level of aspiration, making the progression of the negotiation process uncertain and slow.

Information exchange is a key aspect of the negotiation process. Information flow may help the parties to develop creative alternatives, and/or to persuade one another about the positions they advocate. An analytical mode of thinking also impacts the information flow in negotiations. First, while the Indian negotiators are likely to value information sharing, they may be overcritical of the information provided to them, which in turn may induce them to ask for even more information. While accurate and relevant information reduces ambiguity, it cannot eliminate it completely. Insofar as an analytical mode of thinking seeks to minimize ambiguity, it induces individuals to acquire as much information as possible.

Furthermore, an implicit assumption underlying information sharing is that it helps the actors to develop integrative solutions because they can integrate their interests more effectively. While Indians may certainly be looking for information, the primary concern may be more one of self-justification than of integrating interests. Integration may occur, but it may not be the dominant or the overriding concern.

The observation that Indians are both individualistic and collectivistic in their orientation has also been made. An important implication of this is that the behavior of Indian negotiators is likely to vary contextually (Sinha & Kanungo, 1997). They may be very agreeable on some occasions and make concerted efforts to find common ground, while on other occasions they may be singularly focused on attaining their own goals. The existence of poverty syndrome (Sinha & Kanungo, 1997) perhaps accentuates this tendency. The poverty syndrome is a psychological orientation in which "individuals perceive resources to be even more scarce than they actually are, and assume a highly competitive stance to acquire and monopolize the resources not only for use in the present, but also for the security of the next generation" (Sinha & Kanungo, 1997, p. 98).

In the process of trying to attain their own goals the use of emotional appeals and logical argumentation are not likely to be uncommon. A related observation is that the initiation and the development of personal relationships, while certainly important and helpful in the negotiation process, may not possess the magical qual-

ity in cementing the negotiation process, as might be the case, for example, in China.

The temporal focus on the past and the reactive rather than a proactive attitude towards the external environment is also likely to have a number of negotiating implications. A reactive attitude implies that Indian negotiators are likely to be passive and slow in responding to potential problems in the negotiation process. The strong reverence for the idyllic past would seem to suggest that Indian negotiators are not likely to be easily satisfied with outcomes of negotiations in so far as the current outcomes fall short of an imaginary ideal.

A negative attitude towards business and foreign investors exacerbates the problem of negotiating with Indians. The fact that business activity is not highly valued only dampens the motivation of Indians to conclude an agreement in a timely and efficient manner. Sinha and Kanungo (1997) point out that within Indian culture, work values simply do not have a high level of significance for the individual. Insofar as business activity represents a manifestation of work related behavior, it may not be given the significance it otherwise deserves.

A negative perception of foreign investors further aggravates the problem in that Indians are likely to be highly suspicious and/or critical of the proposals they put forward. This leads, at the least, to a lengthening of the negotiation process and/or, at the most, to outright failure. As a result, the following proposition can be made:

Proposition 2a: Indian negotiators are primed to search for the "analytically ideal" solution. Indians attempt to uncover this by maintaining rigidity in their level of aspiration and by relying on logical argumentation and emotional persuasion to convince the other party.

Negotiating Dynamics in China

The Chinese think holistically rather than analytically. A crucial implication of this is that while the Chinese may enter negotiations with high expectations, just like their Indian counterparts, they are unlikely to maintain these expectations as rigidly during the negotiation process. Instead, they are likely to actively look for a compromise to find a solution if the positions of the parties are far apart. This compromise is to be attained through what Faure (1998) describes as " joint quest," i.e. a process of joint exploration among the parties in which the goal "is not to optimize one's progress on a given itinerary, but to build the road itself" (Faure, 1998, p. 144). In seeking to develop a solution involving compromise, the Chinese, like the Indians, are willing to exchange information, but it may well be the case that the exchange of information may be indirect, and/or may take time.

Recent studies (Kumar & Worm, 2003; Zhao, 2000) seem to suggest that the Chinese are willing to share information. One would also surmise that given the Chinese proclivity to reconcile contradictory propositions and to find some common ground instead of finding the absolute truth, they might well not be as critical of the information supplied to them. This proposition, however, needs to be looked into further. In relation to this, it also bears mentioning that while an analytical mode of thinking, in which the Indians excel, may induce the search for the ideal or

the best solution (Kumar, 2004a), holistic thinking searches for the pragmatically ideal rather than the analytically ideal solution. While a focus on the pragmatic ideal certainly enhances the possibility of arriving at a negotiated agreement, the process by which this pragmatic ideal is attained may not be easy for foreign investors to deal with. Holistic thinking emphasizes multidirectional causality, an acceptance of contradictions with a dialectical resolution, a focus on finding the "right balance" instead of the truth, and a focus on situational explanations. Divergent modes of thinking (holistic versus analytical) may make an agreement more difficult, although the parties may not be as far apart with regard to their ultimate goals.

As noted, the Chinese are collectivistic in their orientation. This, too, has a number of different implications for the negotiation process. For example, it suggests, first of all, that relationships play a critical role in negotiating with the Chinese. Relationships are important in the development, maintenance and deepening of trust in the Chinese cultural context. Organizational scholars point out that the trust that emerges in a collectivistic cultural context has a strong affective component.

Developing affect-based trust takes time and requires perseverance and commitment among the organizational actors. Although trust is affect-based in the Chinese sociocultural context, it is likely to be conveyed in a non-emotional manner. This means that when the Chinese are dissatisfied with someone they will not express their feelings openly, but instead may convey their displeasure through subtle shifts in behavior. It is widely acknowledged that in the Chinese cultural context open displays of emotion are unacceptable (Eid & Diener, 2001). Scholars note that emotional restraint is practiced in dealing with members of the group (Krone, Chen, Sloan, & Gallant, 1997). The development of trust also necessitates that the organizational actors demonstrate flexibility, be sincere in fulfilling their obligations, and be sensitive about face related concerns (Kumar & Worm, 2003). These cultural imperatives essential for developing a relationship with the Chinese are by no means easy to master, and are often a major source of difficulty for foreign investors seeking to do business with the Chinese.

The temporal orientation in China is not too different from that of India. The key implication of this is that negotiating business deals in China, just as in India, takes time, but one major difference may be that the evaluation of negotiated outcomes does not take as its reference points the imaginary or the analytical ideal, as is the case in India. The pragmatic ideal serves as the key anchor. Although the process of negotiation in China, as in India, may be excruciatingly slow, the ultimate goal may be more easily attainable. This leads to the following proposition:

Proposition 2b: Chinese negotiators look for a pragmatically ideal solution which they seek to uncover by avoiding overt conflict supplemented by the use of emotional appeals conveyed in a non-emotional manner.

Institutional Environment and Post Negotiation Evaluation in India and China

The evaluation of a negotiated agreement is a key component of the negotiation process. If the parties feel dissatisfied with the outcome of the post negotiation evaluation, they may either seek to renege on the agreement, implement it half-heartedly, and/or seek to renegotiate the deal. A key component of the post negotiation evaluation centers on the perceived fairness of the negotiated agreement. We argued earlier that in India distributive justice concerns are salient. This leads to a concern with equality or need rule as being viewed as the most equitable. China is not unlike India in that distributive justice concerns are salient even here, but there is the additional tendency to make even finer distinctions so that the equality rule will be used if the individual is a member of group, but the generosity rule will be used if the individual is a close member of the group. Second, procedural justice concerns have a deep resonance in the Chinese sociocultural context given the concerns related to saving face. Actions that threaten an actor from saving face are likely to have profound implications for subsequent interaction.

These cultural characteristics have a number of different implications. First, it suggests that while both the Indians and the Chinese would feel dissatisfied if the agreement did not meet the norms of distributive justice, they may seek to deal with the ensuing discrepancy in different ways. Given the strong emphasis on behavioral propriety in China, the Chinese may signal their unhappiness indirectly rather than directly. They may be less inclined to engage in outright confrontation, and may seek to induce guilt in the other party in order to induce them to reevaluate the negotiated agreement. The indirectness of the Chinese and/or their tendency to induce guilt may certainly pose problems for foreign investors. On the other hand, the holistic way of thinking of the Chinese may lead them to propose a broader framework for evaluating the project in question. It must also be noted that holistic thinking may have a greater impact on how distributive justice concerns are dealt with vis-à-vis procedural justice concerns. In the event that there is a loss of face, even unintentionally, the potential negative ramifications are so great that the issues may not be so easily resolved.

Indians, who are likely to be much more vocal about their unhappiness when issues of distributive justice become increasingly salient, will not hesitate to communicate directly. They may also put pressure on the other party to make concessions. While the self- evident nature of Indian concerns may lessen ambiguity for foreign investors, their contentious approach to dealing with problems may exacerbate the conflict. Although the origins of the problem are not too different for the Indians and the Chinese, the way that they deal with them is clearly distinct. This leads to the following proposition:

Proposition 3a: Distributive justice related concerns are likely to be increasingly salient for Indians, whereas, for the Chinese, both concerns about distributive justice and procedural justice are likely to be salient.

Proposition 3b: Indians will be much more vocal about distributive justice concerns when they emerge and will not hesitate to communicate that directly to the foreign partner. In contrast, the Chinese will be more subtle and indirect in communicating their concerns.

Conclusion

Theoretical Implications

The argument has been made that understanding the dynamics of negotiation processes through an institutional perspective contributes to the further development of negotiation theory. First, the institutional perspective suggests that all negotiations have a past and a future that crucially influence negotiating behavior. Much of the existing research on negotiations has employed an experimental paradigm, and as Lewicki, Barry, Saunders, and Minton, (2003) point out, this is limiting in that it fails to consider the social context within which negotiation occurs. As the authors argue, social context has a profound impact on the negotiating strategies adopted by different actors and/or on how they evaluate negotiation outcomes. It is also worth pointing out that negotiations in the real world may fail or succeed for a variety of different reasons, which may be differentially salient at different times during the negotiation process. An institutional perspective helps pinpoint these variables and the role that they might play in the development of the negotiation process with some accuracy. For example, it is hard to understand the difficulties experienced by independent power producers in developing projects in emerging market economies without paying attention to the institutional context at hand (Kumar, 2004b). At the same time, it is also worth bearing in mind that much of the research on international negotiations has sought to highlight the role played by cultural differences in shaping negotiating processes and outcomes (for exceptions, see Tinsley et al., 1999; Weiss, 1993). Although there is no questioning the importance of culture, it must be noted that culture works in conjunction with other variables (either in a positive or negative manner), but not by itself, and this is indeed one of the insights to be derived from the use of institutional theory. Institutional theory also brings into the forefront the importance of time as a cultural variable. As a component of the normative dimension of the institutional environment, perceptions of time play a crucial role in shaping how individuals perceive the development of the negotiation process. These perceptions are significant for they are likely to have an important influence on the negotiating strategy that they seek to pursue.

In addition to highlighting the role played by institutional factors in shaping the negotiating process, and deepening our understanding about India and China, this paper also seeks to develop new constructs that may have broader relevance to the study of negotiation. The constructs of pragmatic idealism and analytical idealism that has been derived from the literature are reflective of different kinds of reasoning processes, and it may be worthwhile exploring the impact of these cognitive processes on negotiation processes under different situational contexts.

The question as to whether negotiators from other cultures can also be categorized using a similar taxonomy remains open.

One of the findings stemming from the work outlined here is that the different dimensions of institutional environments vary from India to China. The regulatory environment is problematical for investors in both India and China; although it would appear that foreign investors could navigate the regulatory barriers more easily in China than in India given the incentives for the bureaucrats to promote economic growth in their regions. On the normative level, both India and China challenge foreign investors, albeit in very different ways. While the Chinese may be described as being pragmatically ideal, the Indians are analytically ideal.These two contrasting cognitive orientations pose different sets of problems for foreign investors. At the cognitive level, the Chinese environment appears to be more favorable for foreign investors than does the Indian environment.

The portrait of Indian and Chinese negotiators developed here has been derived on the basis of literature about these societies published in the fields of psychology, philosophy, sociology and economics. While there is an enormous amount of empirical literature on Chinese behavior that has emerged in recent years, work on India has been rather limited. As a result, an attempt has been made to derive a set of propositions about Indian and Chinese negotiation behavior that will hopefully stimulate further comparative empirical research on negotiating behavior in these societies. Given the complexity of international business negotiations (Weiss, 1993), it is imperative that scholars use multiple methods to further advance understanding of the dynamics entailed in international negotiations. The simultaneous use of laboratory simulations, case studies, and questionnaire-based surveys would be useful in furthering understanding of the negotiation processes in these countries.

Managerial Implications

The institutional framework posited as being central to understanding negotiation processes also has important managerial implications. Negotiation scholars have either focused their attention on identifying conditions under which different types of negotiation strategies may be appropriate (e.g., Greenhalgh, 1986; Lewicki et al., 2003; Pruitt & Rubin, 1986) and/or have sought to identify negotiating skills that may help individuals to more effectively manage the negotiation process (e.g., Adler, 2002; Lewicki et al., 2003). The institutional perspective, while not discounting either the importance of individual negotiating ability or the importance of choosing the right type of negotiating strategy, would suggest that while these are undoubtedly important, they may be insufficient in guaranteeing the desired results. This is true for the fundamental reason that negotiations implicate the regulatory, cognitive and normative aspects of the environment. Although not all of these dimensions will be equally salient for all types of negotiations, it is important to note that while the skillful negotiator may be able to bridge the normative barrier, overcoming the regulatory and the cognitive barriers represents a hurdle of a different order that may tax even the most skillful negotiator. The regulatory barrier means overcoming the restraints imposed by bureaucracy, and this may be difficult for all sorts of reasons ranging

from inertia, to lack of incentives, or an unstable political environment. The cognitive barrier is also difficult to overcome, at least in the short run, as the general attitude of the public at large may not change overnight. In other words, many negotiations may be intractable, not simply because negotiators lack the appropriate skills or have chosen the wrong strategy, but simply because the institutional environment at a particular point in time may leave the negotiator with few options. If this is indeed the case, then the negotiators need to become adept in not simply choosing the right strategy, but also in choosing the right strategy at the right time. This is indeed one of the managerial implications to be derived from the institutional perspective.

The institutional perspective developed here also has implications for managers seeking to do business in India and China. Indians have been described as being analytically ideal, while the Chinese are characterized as being pragmatically ideal. Simply put, negotiating with Indians is, therefore, an exercise in reasoning whereas negotiating with the Chinese is an exercise in harmony management. With Indians, the negotiator will have to be adept and imaginative in countering reason with reason, whereas with the Chinese the negotiator will have to be behaviorally flexible in order to maintain harmony. Negotiators will be confronted with a strategy of contention in India as opposed to a strategy of compromise in China. Both of these strategies may leave gains on the table, and in that sense may not be truly integrative. In order to bypass the cultural proclivities of these countries, negotiators must be creative and flexible in their thinking. Finally, Indian negotiators are likely to be very sensitive about outcome allocation and the negotiator will have to accommodate their concerns through a mixture of persuasion, and flexibility. The Chinese negotiator is subtler about communicating their concerns, but that does not imply that they are any less important. Moreover, the negotiator will need to deal with the Chinese concerns if they wish the agreement to be a more enduring one. This may call for compromise, and especially making the right concession at the right time. In summary, both Indian and Chinese negotiators pose unique challenges that a skillful negotiator may need to deal with. An awareness of the challenges confronting negotiators is an essential first step for being able to effectively deal with them and it is our hope that this paper is informative in this regard.

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Received: July 23, 2003
Accepted after two revisions: October 5, 2004

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