

Cross-Cultural Negotiation and Decision Making

5 CHAPTER



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OBJECTIVES

1. To learn how to prepare for cross-cultural business negotiations.
2. To recognize the need to build trusting relationships as a prerequisite for successful negotiations and long-term commitments.
3. To be aware of the role of culturally-based behavioral differences, values, and agendas of the negotiating parties.
4. To learn the complexities of negotiating with the Chinese.
5. To appreciate the variables in the decision-making process and understand the influence of culture on decision making.
6. To become familiar with the Japanese decision-making process and how it is influenced by their cultural norms.

OPENING PROFILE: SHISEIDO AND BARE ESSENTUALS— CULTURAL CONFLICTS IN NEGOTIATIONS¹

*"There was an invisible wall between the feelings of the acquirer and the acquired,"
Shiseido's Norio Tadakawa said.*

WALL STREET JOURNAL,
December 29, 2011.

Problems in negotiations and decision-making styles between parties from dissimilar cultures are major factors affecting cross-border ventures. Such conflicts evidence themselves both in the negotiations leading up to the settlement of a joint venture or acquisition, and also in the implementation of the companies' goals, policies and practices—often for some time after the venture has been established. Such was the case between Japan's leading cosmetics company, Shiseido, and the American makeup brand Bare Escentuals Inc.

In 2010, Shiseido was dealing with declining demand in its home market in Japan because of a shrinking population, and, as with other Japanese companies, it began to seek out global acquisition targets in order to expand its businesses. At that time, the yen had appreciated considerably against the U.S. dollar, making it attractive to buy American companies. Shiseido's hope was that Bare Escentuals Inc. would give it a lift in the U.S. and China, where the Japanese company was battling American and French giants for leadership. With that hope in mind Shiseido announced on January 15, 2010 that it would acquire Bare Escentuals for \$1.7 billion, making it the Japanese company's largest acquisition ever. For Bare Escentuals, which generated about 85% to 90% of its sales from the U.S., the move represented a huge opportunity to expand its brand internationally. Shiseido's goal was for overseas sales to account for half its revenues.

The plan was for CEO Leslie Blodgett to continue to head Bare Escentuals, which was known for its line of "mineral" cosmetics. For her part she admitted "I needed to learn more about the culture," Ms. Blodgett said. "Shiseido was a little mysterious to me, but we have very similar core values."² She commented that, while Bare Escentuals is a casual, blue jeans sort of company, appearances are very important at Shiseido's headquarters in Tokyo: Upon entering, three receptionists in matching pink suits stand up and bow ceremoniously, and a small Zen garden with spherical plants sits on the executive floor. Ms. Blodgett said she was planning to spend more time in Tokyo. But only a few months after the acquisition, problems began to emerge, and it wasn't until July 2011 that the general manager of Shiseido's international business division, Norio Tadakawa, visited the Bare Escentuals offices in San Francisco.

Confusion over the post-acquisition strategy was driving down the share price and he was concerned about plans for the future. Unfortunately there was a language barrier and general miscommunication between the two companies; Mr. Tadakawa said that "it required sophisticated communication skills to convey his feelings without appearing presumptuous or autocratic."³ He recognized the challenge in integrating the two companies and the need to develop employees who could bridge the gap between the two cultures, but that had not yet been accomplished. Conflicts remained about the attempt to create a new product line—"bareMinerals Skincare"—and there was a difference of opinion over the launch date. At that point Shiseido's president, Shinzo Maeda, told Mr. Tadakawa to go to San Francisco to repair the relationship.

Subsequently, after a visit by executives on both sides to their counterpart's offices, they were able to come to an understanding and agreed to launch the new line, bareMinerals Skincare, as a Bare product, in March 2012. While it took a long time for the two sides to sufficiently integrate their cultures—both societal and corporate—to put a plan into place to achieve their goals, Shiseido executives maintained that the acquisition represented an extremely important stage in the group's goal of becoming a global force in the cosmetics sector.

As illustrated in the opening profile, global managers negotiate with parties in other countries to make specific plans for strategies (exporting, joint ventures, acquisitions, etc.) as well as for continuing operations. While the complexities of cross-cultural negotiations among firms around the world present challenge enough, managers may also be faced with negotiating with government-owned companies.

Managers must prepare for strategic negotiations. Next the operational details must be negotiated—the staffing of key positions, the sourcing of raw materials or component parts, and the repatriating of profits, to name a few. As globalism burgeons, the ability to conduct successful cross-cultural negotiations cannot be overemphasized. Failure to negotiate productively will result at best in confusion and delays and at worst in lost potential alliances and lost business.

During the process of negotiation—whether before, during, or after negotiating sessions—all kinds of decisions are made, both explicitly and implicitly. A consideration of cross-cultural negotiations must therefore include the various decision-making processes that occur around the world. Negotiations cannot be conducted without decisions being made.

This chapter examines the processes of negotiation and decision making as they apply to international and domestic cross-cultural contexts. The objective is a better understanding of successful management.

NEGOTIATION

Implementing strategy depends on management's ability to negotiate productively—a skill widely considered one of the most important in international business. In the global arena, cultural differences produce great difficulties in the negotiation process. Ignorance of native bargaining rituals, more than any other single factor, accounts for unimpressive sales efforts.⁴ Important differences in the negotiation process from country to country include (1) the amount and type of preparation for a negotiation, (2) the relative emphasis on tasks versus interpersonal relationships, (3) the reliance on general principles rather than specific issues, and (4) the number of people present and the extent of their influence.⁵ In every instance, managers must familiarize themselves with the cultural background and underlying motivations of the negotiators—and the tactics and procedures they use—to control the process, make progress, and therefore maximize company goals.

The term **negotiation** describes the process of discussion by which two or more parties aim to reach a mutually acceptable agreement. For long-term positive relations, the goal should be to set up a win-win situation—that is, to bring about a settlement beneficial to all parties concerned. This process, difficult enough when it takes place among people of similar backgrounds, is even more complex in international negotiations because of differences in cultural values, lifestyles, expectations, verbal and nonverbal language, approaches to formal procedures, and problem-solving techniques. The complexity is heightened when negotiating across borders because of the greater number of stakeholders involved. These stakeholders are illustrated in Exhibit 5-1. In preparing for negotiations, it is critical to avoid projective cognitive similarity—that is, the assumption that others perceive, judge, think, and reason in the same way when, in fact, they do not because of differential cultural and practical influences. Instead, astute negotiators empathetically enter into the private world or cultural space of their counterparts, while willingly sharing their own view of the situation.⁶

THE NEGOTIATION PROCESS

The negotiation process comprises five stages, the ordering of which may vary according to the cultural norms (in any event, for most people, relationship building is part of a continuous process): (1) preparation, (2) relationship building, (3) the exchange of task-related information, (4) persuasion, and (5) concessions and agreement.⁷ Of course, in reality these are seldom distinct stages but rather tend to overlap; negotiators may also temporarily revert to an earlier stage. With that in mind, it is useful to break down the negotiation process into stages to discuss the issues relevant to each

EXHIBIT 5-1 Stakeholders in Cross-Cultural Negotiations

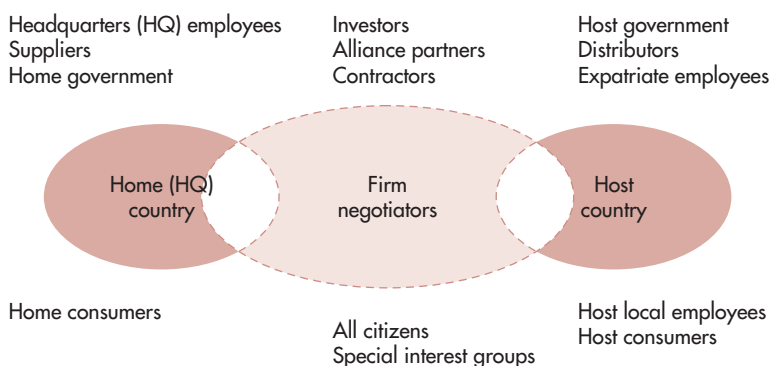
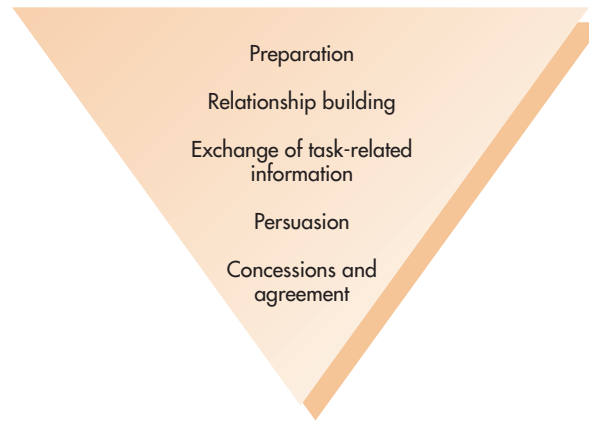


EXHIBIT 5-2 The Negotiation Process

stage and what international managers might expect, so that they might more successfully manage this process. These stages are shown in Exhibit 5-2 and discussed in the following sections.

Stage One: Preparation

The importance of careful preparation for cross-cultural negotiations cannot be overstated. To the extent that time permits, a distinct advantage can be gained if negotiators familiarize themselves with the entire context and background of their counterparts (no matter where the meetings will take place) in addition to the specific subjects to be negotiated. Because most negotiation problems are caused by differences in culture, language, and environment, hours or days of tactical preparation for negotiation can be wasted if these factors are not carefully considered.⁸

To understand cultural differences in negotiating styles, managers first must understand their own styles and then determine how they differ from the norm in other countries. They can do this by comparing profiles of those perceived to be successful negotiators in different countries. Such profiles reflect the value system, attitudes, and expected behaviors inherent in a given society. Other sections of this chapter describe and compare negotiating styles around the world.

VARIABLES IN THE NEGOTIATING PROCESS

Adept negotiators conduct research to develop a profile of their counterparts so that they know, in most situations, what to expect, how to prepare, and how to react. Exhibit 5-3 shows some of the variables to consider when preparing to negotiate. These variables can, to a great degree, help managers understand the deep-rooted cultural and national motivations and traditional processes underlying negotiations with people from other countries.

After developing thoughtful profiles of the other party or parties, managers can plan for the actual negotiation meetings, at the same time remaining open to realizing that specific people may not fit the assumed cultural prototype. Prior to the meetings, they should find out as much as possible about (1) the kinds of demands that might be made, (2) the composition of the “opposing” team, and (3) the relative authority that the members possess. After this, the managers can gear their negotiation strategy specifically to the other side’s firm, allocate roles to different team members, decide on concessions, and prepare an alternative action plan in case a negotiated solution cannot be found.⁹

Following the preparation and planning stage, which is usually done at the home office, the core of the actual negotiation takes place on-site in the foreign location (or at the manager’s home office if the other team has decided to travel there). In some cases, a compromise on the location for negotiations can signal a cooperative strategy, which Weiss calls “Improvise an Approach: Effect Symphony”—a strategy available to negotiators familiar with each other’s culture and willing to put negotiation on an equal footing. Weiss gives the following example of this negotiation strategy:

For their negotiations over construction of the tunnel under the English Channel, British and French representatives agreed to partition talks and alternate the site between Paris and London. At each site, the negotiators were to use established, local ways, including the language . . . thus punctuating approaches by time and space.¹⁰

EXHIBIT 5-3 Variables in the Negotiation Process¹¹

1. *Approach to negotiation process:* Competitive or problem-solving
2. *Composition of negotiating team:* Number and experience of team members. Relative hierarchy in position. Relationships with counterparts. Decision-making power of team members. Motivated by individual, company, or community goals.
3. *Method of reaching decisions:* By individual determination, by majority opinion, or by group consensus.
4. *Purpose of negotiations:* One-time contract. Joint venture or other alliance. Long-term relationship-building.
5. *Negotiation process:* Behavioral expectations, typical procedures.
6. *Communication context used by teams:* Low context, explicit; high-context, implicit; nature of surroundings.
7. *Nature of persuasive arguments:* Factual presentations and arguments, accepted tradition, or emotion.
8. *Bases of trust:* Relationships, past experience, intuition, or rules.
9. *Risk-taking propensity:* Level and methods of uncertainty avoidance in trading information or making a contract.
10. *Value and uses of time:* Attitude toward time. Use of time in scheduling and proceeding with negotiations; use of time to pressure for agreement.
11. *Form of satisfactory agreement:* Based on trust (perhaps just a handshake), the credibility of the parties, commitment, or a legally binding contract.

In this way, each side was put into the context and the script of the other culture about half the time.

The next stage of negotiation—often given short shrift by Westerners—is that of relationship building. In most parts of the world, this stage usually has already taken place or is concurrent with other preparations.

Stage Two: Relationship Building

Relationship building is the process of getting to know one's contacts in a host country and building mutual trust before embarking on business discussions and transactions. This process is regarded with much more significance in most parts of the world than it is in the United States. U.S. negotiators are, generally speaking, objective about the specific matter at hand and usually want to waste no time in getting down to business and making progress. This approach, well understood in the United States, can be disastrous if the foreign negotiators want to take enough time to build trust and respect as a basis for negotiating contracts. In such cases, American efficiency interferes with the patient development of a mutually trusting relationship—the very cornerstone of an Asian business agreement.¹²

NONTASK SOUNDING

*Five minutes of nontask sounding in the United States can translate into five days, weeks, or even months of non-task sounding in Shanghai, Lagos, Rio de Janeiro, or Jeddah. There is no other way because in such countries real business cannot be conducted until a good interpersonal relationship has been established.*¹³

In many countries, such as Mexico, Saudi Arabia, and China, personal commitments to individuals, rather than the legal system, form the basis for the enforcement of contracts. Effective negotiators allow plenty of time in their schedules for such relationship building with bargaining partners. This process usually takes the form of social events, tours, and ceremonies, along with much **nontask sounding**—general, polite conversation and informal communication before meetings—while all parties get to know one another. In such cultures, one patiently waits for the

other party to start actual business negotiations, aware that relationship building is, in fact, the first phase of negotiations.¹⁴ It is usually recommended that managers new to such scenarios use an intermediary—someone who already has the trust and respect of the foreign managers and who therefore acts as a “relationship bridge.” Middle Easterners, in particular, prefer to negotiate through a trusted intermediary, and for them as well, initial meetings are only for the purpose of getting acquainted. Arabs do business with the person, not the company, and therefore mutual trust must be established.

In their best seller on negotiation, *Getting to Yes*, Fisher and Ury point out the dangers of not preparing well for negotiations:

In Persian, the word “compromise” does not have the English meaning of a midway solution which both sides can accept, but only the negative meaning of surrendering one’s principles. Also, “mediator” means “meddler,” someone who is barging in uninvited. In 1980, United Nations Secretary-General Kurt Waldheim flew to Iran to deal with the hostage situation. National Iranian radio and television broadcast in Persian a comment he was said to have made upon his arrival in Tehran: “I have come as a mediator to work out a compromise.” Less than an hour later, his car was being stoned by angry Iranians.¹⁵

As a bridge to the more formal stages of negotiations, such relationship building is followed by posturing—that is, general discussion that sets the tone for the meetings. This phase should result in a spirit of cooperation. To help ensure this result, negotiators must use words like “respect” and “mutual benefit” rather than language that would suggest arrogance, superiority, or urgency.

Stage Three: Exchanging Task-Related Information

In the next stage—exchanging task-related information—each side typically makes a presentation and states its position; a question-and-answer session usually ensues, and alternatives are discussed. From an American perspective, this represents a straightforward, objective, efficient, and understandable stage. However, negotiators from other countries continue to take a more indirect approach at this stage. Mexican negotiators are usually suspicious and indirect, presenting little substantive material and more lengthy, evasive conversation. French negotiators enjoy debate and conflict and will often interrupt presentations to argue about an issue even if it has little relevance to the topic being presented. The Chinese also ask many questions of their counterparts, and delve specifically and repeatedly into the details at hand; conversely, Chinese presentations contain only vague and ambiguous material. For instance, after about 20 Boeing officials spent six weeks presenting masses of literature and technical demonstrations to the Chinese, the Chinese said, “Thank you for your introduction.”¹⁶

The Russians also enter negotiations well prepared and well versed in the specific details of the matter being presented. To answer their (or any other side’s) questions, it is generally a good idea to bring along someone with expertise to answer any grueling technical inquiries. Russians also put a lot of emphasis on protocol and expect to deal only with top executives.

Adler suggests that negotiators should focus not only on presenting their situation and needs but also on showing an understanding of their opponents’ viewpoint. Focusing on the entire situation confronting each party encourages the negotiators to assess a wider range of alternatives for resolution, rather than limiting themselves to their preconceived, static positions. She suggests that to be most effective, negotiators should prepare for meetings by practicing role reversal.¹⁷

Stage Four: Persuasion

In the next phase of negotiations—persuasion—the hard bargaining starts. Typically, both parties try to persuade the other to accept more of their position and to give up some of their own. Often, some persuasion has already taken place beforehand in social settings and through mutual contacts. In the Far East, details are likely to be worked out ahead of time through the “back-door” approach (*houmani*). For the most part, however, the majority of the persuasion takes place over one or more negotiating sessions. International managers usually find that this process of bargaining and making concessions is fraught with difficulties because of the different uses and

interpretations of verbal and nonverbal behaviors. Although variations in such behaviors influence every stage of the negotiation process, they can play a particularly powerful role in persuasion, especially if they are not anticipated.

Studies of negotiating behavior have revealed the use of certain tactics, which skilled negotiators recognize and use, such as promises, threats, and so on. Other, less savory tactics are sometimes used in international negotiations. Often called “dirty tricks,” these tactics, according to Fisher and Ury, include efforts to mislead “opponents” deliberately.¹⁸ Some negotiators may give wrong or distorted factual information or use the excuse of ambiguous authority—giving conflicting impressions about who in their party has the power to make a commitment. In the midst of hard bargaining, the prudent international manager will follow up on possibly misleading information before taking action based on trust.

Other rough tactics are designed to put opposing negotiators in a stressful situation physically or psychologically, so that their giving in is made more likely. These include uncomfortable room temperatures, too-bright lighting, rudeness, interruptions, and other irritations. International negotiators must keep in mind, however, that what might seem like dirty tricks to Americans is simply the way other cultures conduct negotiations. In some South American countries, for example, it is common to start negotiations with misleading or false information.

The most subtle behaviors in the negotiation process—and often the most difficult to deal with—are usually the nonverbal messages: the use of voice intonation, facial and body expressions, eye contact, dress, and the timing of the discussions. Nonverbal behaviors, discussed in previous chapters, are ingrained aspects of culture used by people in their daily lives; they are not specifically changed for the purposes of negotiation. Among those behaviors impacting negotiations is the direct communication style, such as with Germans, compared with the indirect style, such as with Japanese. Clearly, also, the individualism-collectivism cultural dimension is one that greatly guides negotiation because of the relative motivation of personal self-interest in individualistic societies, such as the United States; this compares with the group-interest in Asian cultures, so that Asian negotiators will likely give more importance to their social obligations and the needs of the group.¹⁹

Although persuasion has been discussed as if it were always a distinct stage, it is really the primary purpose underlying all stages of the negotiation process. In particular, persuasion is an integral part of the process of making concessions and arriving at an agreement.

Stage Five: Concessions and Agreement

In the last stage of negotiation—concessions and agreement—tactics vary greatly across cultures. Well-prepared negotiators are aware of various concession strategies and have decided ahead of time what their own concession strategy will be. Familiar with the typical initial positions that various parties are likely to take, they know that Russians and Chinese generally open their bargaining with extreme positions, asking for more than they hope to gain, whereas Swedes usually start with what they are prepared to accept.

Research in the United States indicates that better end results are attained by starting with extreme positions. With this approach, the process of reaching an agreement involves careful timing of the disclosure information and of concessions. Most people who have studied negotiations believe that negotiators should disclose only the information that is necessary at a given point and that they should try to obtain information piece by piece to gradually get the whole picture without giving away their goals or concession strategy. These guidelines will not always work in intercultural negotiations because the American process of addressing issues one at a time, in a linear fashion, is not common in other countries or cultures. Negotiators in the Far East, for example, approach issues in a holistic manner, deciding on the whole deal at the end, rather than making incremental concessions.

Again, at the final stage of agreement and contract, local practices determine how these agreements will be honored. Whereas Americans take contracts very seriously, Russians often renege on their contracts. The Japanese, on the other hand, consider a formal contract to be somewhat of an insult and a waste of time and money in legal costs, since they prefer to operate on the basis of understanding and social trust.²⁰ More attention to this and all the negotiation phases might have led to better results in the French-Chinese joint venture discussed in the Management in Action section.



MANAGEMENT IN ACTION

Cultural Misunderstanding—The Danone-Wahaha Joint Venture in China Splits after Years of Legal Dispute²¹

Groupe Danone of France resolved a long-running dispute with its Chinese joint venture partner on Wednesday (September 20, 2009), agreeing to exit the venture by selling its 51 percent stake in the Wahaha Group, one of China's largest beverage companies.²²

What went wrong? Many cross-border joint ventures (JVs) encounter problems because the partners' differences in management styles and corporate control, as well as cross-cultural issues, do not get recognized and resolved during the negotiation phase, and so continue to fester during the operations phase. One such JV is the Sino-French collaboration that was formed by Groupe Danone (hereafter Danone), and Hangzhou Wahaha Group Co. (hereafter WHH). Danone is one of the largest food conglomerates from France. Wahaha, which was started in 1987 and was controlled by the government of Hangzhou's Shangcheng District, is China's largest beverage company. From its inception, Zong Qinghou ran the operations of WHH. When the company converted itself into a private entity, Qinghou took the role of a minority shareholder.

The Danone-WHH joint venture was established in March 1996 and took the trademark name of Wahaha because of its strong brand visibility in the Chinese market. In emerging markets, Danone grew by creating a multitude of profitable JVs in India, Pakistan, Vietnam, Columbia, and other countries. On the other hand, WHH achieved its market expansion and corporate growth in China by turning itself into a national brand and a highly successful food and beverage company. The Danone-Wahaha JV dealt with the areas of food and beverages and grew at a respectable rate. For Danone, this was a good strategy to enter into China. For WHH, the JV helped the company to make a linkage with a well-known global brand.

Negotiations resulted in the following salient features of the JV:

1. Ownership of the JV included foreign partners (51 percent), WHH (39 percent), and employees (10 percent).
2. The JV encompassed five entities: Hangzhou Wahaha Baili Foods, Hangzhou Wahaha Health Foods, Hangzhou Wahaha Foods Co., Hangzhou Wahaha Beverages Co., and Hangzhou Wahaha Quick Frozen Foods. Danone and Peregrine Investment Holdings collectively invested \$70 million in the five entities of the JV.
3. As agreed to by Danone, the day-to-day operations of the JV resided with Qinghou.

The JV's business operations expanded in China, eventually growing into a \$2 billion beverage behemoth and one of China's best-known brands. However, the activities of Danone and WHH also became intertwined and complex, leading to differences in opinion, corporate control, and management styles. Between 1996 and 2009, the following changes took place in the structure and operations of the Danone-WHH JV:

1. Because of consumer demand and market growth, the JV's operations in China witnessed the emergence of 37 business entities. Danone attempted to buy out Qinghou but the negotiations were unsuccessful.
2. Public rows erupted between the two companies when they kept on blaming each other for breach of contract. Danone blamed Qinghou for going outside of the contract and profiting from 80 unauthorized businesses. This included misusing the Danone brand and its distribution system in China.
3. The dispute between Danone and Qinghou became even more personal when Danone filed a lawsuit against Qinghou's wife and daughter in a Los Angeles court regarding their business interests and unauthorized JV-related dealings outside of China.
4. Danone filed for arbitration proceedings in Stockholm in May 2007.
5. During the dispute, Danone also filed legal claims against ten business entities that were believed to be controlled by WHH in Samoa and the British Virgin Islands.
6. The Danone-WHH case became so much embroiled that Chinese and French governments asked the companies to negotiate an "amicable" resolution.
7. In September 2009, the two companies agreed to drop the protracted legal proceedings and announced that they had agreed to an amicable split: Wahaha would pay cash to acquire Danone's 51 percent, giving the Chinese company control of the venture.

From this highly publicized dispute between Danone and WHH, we learn the following lessons:

1. Cross-cultural misunderstandings and unfamiliarity with the JV partners were at the heart of this dispute. Qinghou's entrepreneurial style and WHH's consistent growth in China could have been one of the causes of this dispute since Danone management was alienated in the process.
2. Both partners used media and public relations campaigns in China and Western markets to justify their arguments, instead of having open negotiations.
3. In any JV, relationship-building and exchange of project-related information is critical in the post-negotiation phase that is based on concessions and agreement.
4. It seems that Danone and WHH lacked open communication in their day-to-day management of the JV. Also important was the area of trust that happened to be missing in the partners' dealings.
5. According to *China Economic Review*, Chinese companies often become an extension of their founders' personal goals regarding day-to-day business operations. Most Chinese businesses do not see a major difference between 51/49 ownership and enforcement of rights. Foreign partners must make sure that their designated managers and staff members are included in the day-to-day management of the JV. In international markets, JV-related contracts can be abused and could lead to cross-cultural misunderstands and operational disruptions.
6. Finally, in JVs, relationship-building takes time and a good amount of interaction is needed between the partners. In the case of the Danone-WHH JV, the partner conflict, face-saving problems, blame-game, and accusations could have been avoided had the two companies communicated openly during the negotiation phase and afterwards. Also it seems that Danone and WHH did not understand their low-context and high-context cultures and management styles that eventually led to this conflict.

Source: Updated by Helen Deresky from a case written exclusively for this book by Syed Tariq Anwar, West Texas A&M University. Used with permission.

UNDERSTANDING NEGOTIATION STYLES

Global managers can benefit from studying differences in negotiating behaviors (and the underlying reasons for them), which can help them recognize what is happening in the negotiating process. Exhibit 5-4 shows some examples of differences among North American, Japanese, and Latin American styles. Brazilians, for example, generally have a spontaneous, passionate, and dynamic style. They are very talkative and particularly use the word “no” extensively—more than 40 times per half-hour, compared with 4.7 times for Americans and only 1.9 times for the Japanese. They also differ markedly from Americans and the Japanese by their use of extensive physical contact.²³

The Japanese are typically skillful negotiators. They have spent a great deal more time and effort studying U.S. culture and business practices than Americans have spent studying Japanese practices. A typical example of this contrast was apparent when Charlene Barshefsky—a tough American international lawyer who had never visited Japan before—was sent there as a trade negotiator and had little knowledge of her counterparts. But Mr. Okamatsu, like most Japanese negotiators, was very familiar with America. He had lived with his family in New York for three years and had spent many years handling bilateral trade disputes between the two countries. The different styles of the two negotiators were apparent in the negotiations. Ms. Barshefsky wanted specific import goals. Mr. Okamatsu wanted to talk more about the causes of trade problems rather than set specific targets, which he called the “cooperative approach.” Ms. Barshefsky snapped that the approach was “nonsense” and “would analyze the past to death, with no link to future change.”²⁴

Such differences in philosophy and style between the two countries reflect ten years of anger and feelings of betrayal in trade negotiations. John Graham, a California professor who has studied international negotiating styles, says that the differences between United States and Japanese styles are well illustrated by their respective proverbs: the Americans believe that “The squeaking wheel gets the grease,” and the Japanese say that “The pheasant would not be shot but for its cry.”²⁵ The Japanese are calm, quiet, patient negotiators; they are accustomed to long, detailed negotiating sessions. Whereas Americans often plunge straight to the matter at hand, the

EXHIBIT 5-4 Comparison of Negotiation Styles—Japanese, North American, and Latin American

Japanese	North American	Latin American
Emotional sensitivity highly valued	Emotional sensitivity not highly valued	Emotional sensitivity valued
Hiding of emotions	Dealing straightforwardly or impersonally	Emotionally passionate
Subtle power plays; conciliation	Litigation not so much as conciliation	Great power plays; use of weakness
Loyalty to employer; employer takes care of employees	Lack of commitment to employer; breaking of ties by either if necessary	Loyalty to employer (who is often family)
Face-saving crucial; decisions often on basis of saving someone from embarrassment	Decisions made on a cost-benefit basis; face-saving does not always matter	Face-saving crucial in decision making to preserve honor, dignity
Decision makers openly influenced by special interests	Decision makers influenced by special interests but often not considered ethical	Execution of special interests on decision expected, condoned
Not argumentative; quiet when right	Argumentative when right or wrong, but impersonal	Argumentative when right or wrong; passionate
What is down in writing must be accurate, valid	Great importance given to documentation as evidential proof	Impatient with documentation as obstacle to understanding general principles
Step-by-step approach to decision making	Methodically organized decision making	Impulsive, spontaneous decision making
Good of group is the ultimate aim	Profit motive or good of individual is the ultimate aim	What is good for group is good for the individual
Cultivate a good emotional social setting for decision making; get to know decision makers	Decision making impersonal; avoid involvements, conflict of interest	Personalism necessary for good decision making

Source: Pierre Casse, *Training for the Multicultural Manager: A Practical and Cross-Cultural Approach to the Management of People* (Washington, D.C.: Society for Intercultural Education, Training, and Research, 1982), used with the permission of the Society for Intercultural Education, Training and Research, 2012.

Japanese instead prefer to develop long-term, personal relationships. The Japanese want to get to know those on the other side and will spend some time in nontask sounding.

In negotiations, the Japanese culture of politeness and hiding of emotions can be disconcerting to Americans when they are unable to make straightforward eye contact or when the Japanese maintain smiling faces in serious situations. It is important that Americans understand what is polite and what is offensive to the Japanese—and vice versa. Americans must avoid anything that resembles boasting because the Japanese value humility, and physical contact or touching of any sort must be avoided.²⁶ Consistent with the culture-based value of maintaining harmony, the Japanese are likely to be evasive or even leave the room rather than give a direct negative answer.²⁷ Fundamental to Japanese culture is a concern for the welfare of the group; anything that affects one member or part of society affects the others. Thus, the Japanese view decisions carefully in light of long-term consequences; they use objective, analytic thought patterns; and they take time for reflection.²⁸

Further insight into negotiating styles around the world can be gained by comparing the North American, Arab, and Russian styles. Basic cultural values often shed light on the way information is presented, whether and how concessions will be made, and the general nature and duration of the relationship. For North Americans, negotiations are businesslike; their factual

appeals are based on what they believe is objective information, presented with the assumption that it is understood by the other side on a logical basis. Arabs use affective appeals based on emotions and subjective feelings. Russians employ axiomatic appeals—that is, their appeals are based on the ideals generally accepted in their society. The Russians are tough negotiators; they stall for time until they unnerve Western negotiators by continuously delaying and haggling. Much of this approach is based on the Russians' different attitude toward time. Because Russians traditionally do not subscribe to the Western belief that "time is money," they are more patient, more determined, and more dogged negotiators. They try to keep smiles and other expressions of emotion to a minimum to present a calm exterior.²⁹

In contrast to the Russians, Arabs are more interested in long-term relationships and are, therefore, more likely to make concessions. Compared with Westerners, Arabs have a casual approach to deadlines, and frequently the negotiators lack the authority to finalize a deal.³⁰

Successful Negotiators Around the World

Following are selected profiles of what it takes to be a successful negotiator, as perceived by people in their home countries. These are profiles of American, Indian, Arab, Swedish, and Italian negotiators, according to Pierre Casse, and give some insight into what to expect from different negotiators and what they expect from others.³¹

AMERICAN NEGOTIATORS

According to Casse, a successful American negotiator acts as follows:

1. Knows when to compromise
2. Takes a firm stand at the beginning of the negotiation
3. Refuses to make concessions beforehand
4. Keeps his or her cards close to his or her chest
5. Accepts compromises only when the negotiation is deadlocked
6. Sets up the general principles and delegates the detail work to associates
7. Keeps a maximum of options open before negotiation
8. Operates in good faith
9. Respects the "opponents"
10. States his or her position as clearly as possible
11. Knows when he or she wishes a negotiation to move on
12. Is fully briefed about the negotiated issues
13. Has a good sense of timing and is consistent
14. Makes the other party reveal his or her position while keeping his or her own position hidden as long as possible
15. Lets the other negotiator come forward first and looks for the best deal

INDIAN NEGOTIATORS

Indians, says Casse, often follow Gandhi's approach to negotiation, which Gandhi called *satyagraha*, "firmness in a good cause." This approach combines strength with the love of truth. The successful Indian negotiator thus acts as follows:

1. Looks for and says the truth
2. Is not afraid of speaking up and has no fears
3. Exercises self-control ("The weapons of the *satyagraha* are within him.")
4. Seeks solutions that will please all the parties involved ("*Satyagraha* aims to exalt both sides.")
5. Respects the other party ("The opponent must be weaned from error by patience and sympathy. Weaned, not crushed; converted, not annihilated.")
6. Neither uses violence nor insults
7. Is ready to change his or her mind and differ with himself or herself at the risk of being seen as inconsistent and unpredictable
8. Puts things into perspective and switches easily from the small picture to the big one
9. Is humble and trusts the opponent
10. Is able to withdraw, use silence, and learn from within

11. Relies on himself or herself, his or her own resources and strengths
12. Appeals to the other party's spiritual identity ("To communicate, the West moves or talks. The East sits, contemplates, suffers.")
13. Is tenacious, patient, and persistent
14. Learns from the opponent and avoids the use of secrets
15. Goes beyond logical reasoning and trusts his or her instinct as well as faith

ARAB NEGOTIATORS

Many Arab negotiators, following Islamic tradition, use mediators to settle disputes. A successful Arab mediator acts in the following way:

1. Protects all the parties' honor, self-respect, and dignity
2. Avoids direct confrontations between opponents
3. Is respected and trusted by all
4. Does not put the parties involved in a situation where they have to show weakness or admit defeat
5. Has the necessary prestige to be listened to
6. Is creative enough to come up with honorable solutions for all parties
7. Is impartial and can understand the positions of the various parties without leaning toward one or the other
8. Is able to resist any kind of pressure that the opponents could try to exercise on him
9. Uses references to people who are highly respected by the opponents to persuade them to change their minds on some issues ("Do it for the sake of your father.")
10. Can keep secrets and in so doing gains the confidence of the negotiating parties
11. Controls his temper and emotions (or loses it when and where necessary)
12. Can use conferences as mediating devices
13. Knows that the opponents will have problems in carrying out the decisions made during the negotiation
14. Is able to cope with the Arab disregard for time
15. Understands the impact of Islam on the opponents who believe that they possess the truth, follow the Right Path, and are going to "win" because their cause is just

SWEDISH NEGOTIATORS

Swedish negotiators, according to Casse, are:

1. Very quiet and thoughtful
2. Punctual (concerned with time)
3. Extremely polite
4. Straightforward (they get straight down to business)
5. Eager to be productive and efficient
6. Heavy going—serious and contemplative
7. Down to earth and overcautious
8. Rather flexible
9. Able to and quite good at holding emotions and feelings
10. Slow at reacting to new (unexpected) proposals
11. Informal and familiar
12. Conceited
13. Perfectionist
14. Afraid of confrontations
15. Very private

ITALIAN NEGOTIATORS

Italians, says Casse, value a negotiator who acts as follows:

1. Has a sense of drama (acting is a main part of the culture)
2. Does not hide his or her emotions (which are partly sincere and partly feigned)
3. Reads facial expressions and gestures very well

4. Has a feeling for history
5. Does not trust anybody
6. Is concerned about the *bella figura*—the “good impression”—he or she can create among those who watch his or her behavior
7. Believes in the individual’s initiatives, not so much in teamwork
8. Is good at being obliging and simpatico at all times
9. Is always on the *qui vive*—the “lookout”
10. Never embraces definite opinions
11. Is able to come up with new ways to immobilize and eventually destroy his or her opponents
12. Handles confrontations of power with subtlety and tact
13. Has a flair for intrigue
14. Knows how to use flattery
15. Can involve other negotiators in complex combinations

COMPARING PROFILES

Comparing such profiles is useful. Indian negotiators, for example, are humble, patient, respectful of the other parties, and very willing to compromise, compared with Americans, who are firmer about taking stands. An important difference between Arab negotiators and those from most other countries is that the negotiators are mediators, not the parties themselves; hence, direct confrontation is made impossible. Successful Swedish negotiators are conservative and careful, dealing with factual and detailed information. This profile contrasts with Italian negotiators, who are expressive and exuberant but less straightforward than their Swedish counterparts.

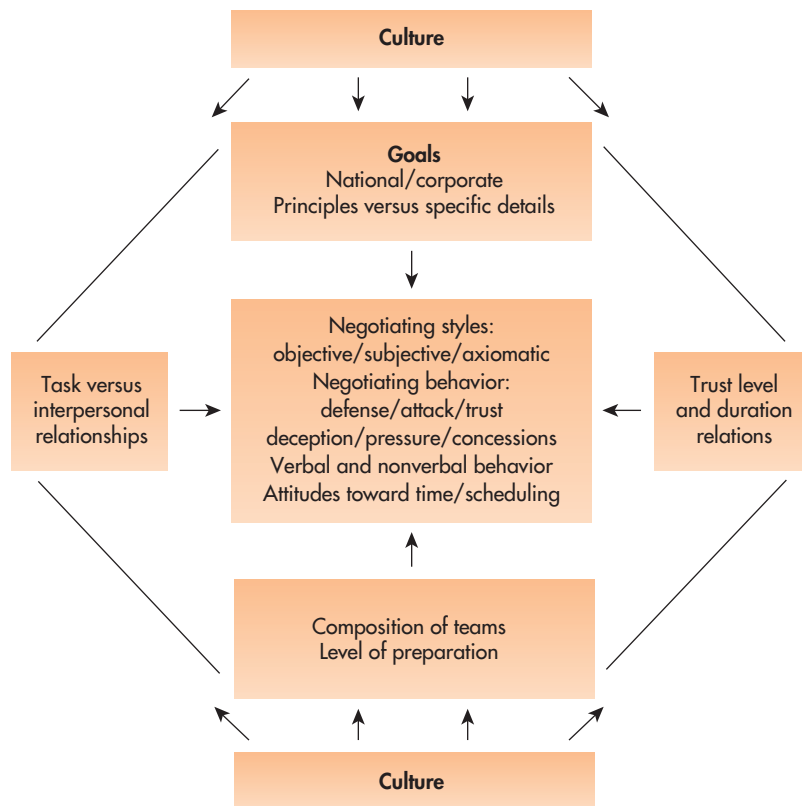
MANAGING NEGOTIATION

Skillful global managers must assess many factors when managing negotiations. They must understand the position of the other parties in regard to their goals—whether national or corporate—and whether these goals are represented by principles or specific details. They should have the ability to recognize the relative importance attached to completing the task versus developing interpersonal relationships. Managers also must know the composition of the teams involved, the power allotted to the members, and the extent of the teams’ preparation. In addition, they must grasp the significance of personal trust in the relationship. As stated earlier, the culture of the parties involved affects their negotiating styles and behavior and thus the overall process of negotiation. However, whatever the culture, research by Tse, Francis, and Walls has found person-related conflicts to “invite negative, more relation-oriented (versus information-oriented) responses,” leading them to conclude that “The software of negotiation—that is, the nature and the appearance of the relationship between the people pursuing common goals—needs to be carefully addressed in the negotiation process.”³²

This is particularly true when representatives of individual-focused cultures (such as the Americans) and group-focused cultures (such as the Chinese) are on opposite sides of the table. Many of these culture-based differences in negotiations came to light in Husted’s study on Mexican negotiators’ perceptions of the reasons for the failure of their negotiations with U.S. teams.³³ The Mexican managers’ interpretations were affected by their high-context culture, with the characteristics of an indirect approach, patience in discussing ideas, and maintenance of dignity. Instead, the low-context Americans conveyed an impatient, cold, blunt communicative style. To maintain the outward dignity of their Mexican counterparts, Americans must approach negotiations with Mexicans with patience and tolerance and refrain from attacking ideas because these attacks may be taken personally. The relationships among the factors of cross-cultural negotiation discussed in this chapter are illustrated in Exhibit 5-5.

The successful management of intercultural negotiations requires that a manager go beyond a generalized understanding of the issues and variables involved. She or he must (1) gain specific knowledge of the parties in the upcoming meeting, (2) prepare accordingly to adjust to and control the situation, and (3) be innovative.³⁴

Research has shown that a problem-solving approach is essential to successful cross-cultural negotiations, whether abroad or in the home office, although the approach works differently in various countries.³⁵ This problem-solving approach requires that a negotiator treat everyone with

EXHIBIT 5-5 Cross-Cultural Negotiation Variables

respect, avoid making anyone feel uncomfortable, and not criticize or blame the other parties in a personal way that may make someone feel shame—that is, lose face.

Research by the Huthwaite Research Group reveals how successful negotiators, compared to average negotiators, manage the planning process and their face-to-face behavior. The group found that during the planning process, successful negotiators consider a wider range of options and pay greater attention to areas of common ground. Skillful negotiators also tend to make twice as many comments regarding long-term issues and are more likely to set upper and lower limits regarding specific points. In their face-to-face behavior, skillful negotiators make fewer irritating comments—such as “We’re making you a generous offer”—make counterproposals less frequently, and use fewer reasons to back up arguments. In addition, skilled negotiators practice active listening—asking questions, clarifying their understanding of the issues, and summarizing the issues.³⁶

Using the Internet to Support Negotiations

Modern technology can provide support for the negotiating process, though it can’t take the place of the essential face-to-face ingredient in many instances. A growing component for electronic commerce is the development of applications to support the negotiation of contracts and resolution of disputes. As Web applications develop, they may provide support for various phases and dimensions, such as “Multiple-issue, multiple-party business transactions of a buy–sell nature; international dispute resolution (business disputes, political disputes); and internal company negotiations and communications, among others.”³⁷

Negotiation support systems (NSS) can provide support for the negotiation process in the following ways:

- Increasing the likelihood that an agreement is reached when a zone of agreement exists (solutions that both parties would accept)
- Decreasing the direct and indirect costs of negotiations, such as costs caused by time delays (strikes, violence), and attorneys’ fees, among others
- Maximizing the chances for optimal outcomes³⁸

One Web-based support system—called INSPIRE—developed at Carleton University in Ottawa, Canada, provides applications for preparing and conducting negotiations and for renegotiating options after a settlement. Users can specify preferences and assess offers; the site also has graphical displays of the negotiation process.³⁹

E-NEGOTIATIONS

The advantages of electronic communications are well known: speed, less travel, and the ability to lay out much objective information to be considered by the other party over time. The disadvantages, however, might kill a deal before it gets off the ground, by not being able to build trust and interpersonal relationships over time before getting down to business. In addition, non-verbal nuances are lost, although videoconferencing is a compromise for that purpose.

Rosette et al. noted that “opening offers may be especially aggressive in e-mail as compared to face-to-face negotiations because computer-mediated communications, such as e-mail, loosen inhibitions and cause negotiators to become more competitive and more risk seeking. The increase in competitive and risky behavior occurs because e-mail does not communicate social context cues in the same way as does the presence of another person.”⁴⁰

Managing Conflict Resolution

Much of the negotiation process is fraught with conflict—explicit or implicit—and such conflict can often lead to a standoff, or a lose–lose situation. This is regrettable, not only because of the situation at hand, but also because it probably will shut off future opportunities for deals between the parties. Much of the cause of such conflict can be found in cultural differences between the parties—in their expectations, in their behaviors, and particularly in their communication styles—as illustrated in *Comparative Management in Focus, Negotiating with the Chinese*.



COMPARATIVE MANAGEMENT IN FOCUS

Negotiating with the Chinese

The Chinese way of making decisions begins with socialization and initiation of personal guanxi rather than business discussion. The focus is not market research, statistical analysis, facts, Power-Point presentations, or to-the-point business discussion. My focus must be on fostering guanxi.

SUNNY ZHOU, GENERAL MANAGER OF KUNMING LIDA WOOD AND BAMBOO PRODUCTS.⁴¹

With the increasing business being conducted in China, or with Chinese allies or other companies, it is clear that firms can greatly benefit from China’s rapidly expanding economy and FDI, as well as the improved international relations and government reforms.

When Westerners initiate business negotiations with representatives from the People’s Republic of China, cultural barriers confront both sides. However, we should recognize that there are regional cultural differences that may affect negotiation, as well as regional economic differences; some examples of regional differences are noted below as researched by Tung et al. In addition there are considerable generational differences, in particular with those younger people who have been educated in the West and are more familiar with Western ways and languages, in contrast with the older generation, which holds to more traditional culture and negotiation strategies.⁴²

Beijing (capital): “Political, bureaucratic, educated, diversified, high relationship orientation, more direct, high ‘face.’”⁴³

Shanghai (commercial center): “Business savvy, focus on details, bottom line, career-oriented younger people, materialistic, confident.”⁴⁴

Guangzhou/Shenzhen (south, near Hong Kong): “Entrepreneurial, hard-working, manufacturing center, outside the norm, more risk-taking, like Hong Kong, more informal.”⁴⁵

Western China (Chengdu/Chongqing): “Traditional ‘People’s’ mentality, less experience with international business/negotiations, socializing importance.”⁴⁶

For the most part, the negotiation process used by the Chinese is mystifying to most Westerners. For instance, the Chinese put much greater emphasis than Americans and Europeans on respect and

(Continued)

MAP 5.1 China



friendship, on saving face, and on group goals. Long-term goals are more important to the Chinese than the specific current objectives typical of Western negotiators. Even though market forces now have more influence in China, political and economic agendas are still expected to be considered in negotiations. Economic conditions, political pervasiveness, and the influence that political and state agencies have on the negotiating parties in China are key practical factors that, added to cultural factors, make up the context affecting Chinese negotiations.

Business people report two major areas of conflict in negotiating with the Chinese: (1) the amount of detail the Chinese want about product characteristics, and (2) their apparent insincerity about reaching an agreement. In addition, Chinese negotiators frequently have little authority, frustrating Americans who do have the authority and are ready to conclude a deal.⁴⁷ This situation arises because many Chinese companies report to the government trade corporations, which are involved in the negotiations and often have a representative on the team. Often, the goals of Chinese negotiators remain primarily within the framework of state planning and political ideals. Although China is becoming more profit-oriented, most deals are still negotiated within the confines of the state budget allocation for that project rather than on the basis of a project's profitability or value. It is crucial, then, to find out which officials—national, provincial, or local—have the power to make, and keep, a deal. According to James Broering of Arthur Andersen, who does much business in China, “companies have negotiated with government people for months, only to discover that they were dealing with the wrong people.”⁴⁸

Research shows that for the Chinese, the negotiation process is greatly affected by three cultural norms: their ingrained politeness and emotional restraint, their emphasis on social obligations, and their belief in the interconnection of work, family, and friendship. Because of the Chinese preference for emotional restraint and saving face, aggressive or emotional attempts at persuasion in negotiation are likely to fail. Instead, the Chinese tendency to avoid open conflict will more likely result in negative strategies such as discontinuing or withdrawing from negotiation.⁴⁹ The concept of “face” is at the heart of this kind of response—it is essential for foreigners to recognize the role that face behavior plays in negotiations. There are two components of face—*lien* and *mien-tzu*. *Lien* refers to a person's moral character; it is the most important thing defining that person, and without it one cannot function in society. It can only be earned by fulfilling obligations to others. *Mien-tzu* refers to one's reputation or prestige, earned through accomplishments or through bureaucratic or political power.⁵⁰ Giving others one's time, gifts, or praise enhances one's own face. In negotiations, it is vital that you do not make it obvious that you have “won,” because that means that the other party has “lost” and will lose face. One must, therefore, make token concessions and other attempts to show that respect

must be demonstrated, and modesty and control must be maintained; otherwise anyone who feels he or she has “lost face” will not want to deal with you again. The Chinese will later ignore any dealings or incidents that caused them to lose face, maintaining the expected polite behavior out of social consciousness and concern for others. When encountering an embarrassing situation, they will typically smile or laugh in an attempt to save face, responses that are confusing to Western negotiators.⁵¹

“It is critical that you give face, save face and show face when doing business in China.”⁵²

Generally, Westerners tend to feel that the Chinese negotiators are not truthful with them and do not give them straight answers. In turn, the Chinese sense that tension and feel a lack of trust in the Westerners.⁵³

The emphasis on social obligations underlies the strong orientation of the Chinese toward collective goals. Therefore, appeals to individual members of the Chinese negotiating team, rather than appeals to benefit the group as a whole, will probably backfire. The Confucian emphasis on the kinship system and the hierarchy of work, family, and friends explains the Chinese preference for doing business with familiar, trusted people and trusted companies. “Foreign” negotiators, then, should focus on establishing long-term, trusting relationships, even at the expense of some immediate returns.

Deeply ingrained in the Chinese culture is the importance of harmony for the smooth functioning of society. Harmony is based primarily on personal relationships, trust, and ritual. After the Chinese establish a cordial relationship with foreign negotiators, they use this relationship as a basis for the give-and-take of business discussions. This implicit cultural norm is commonly known as *guanxi*, which refers to the intricate, pervasive network of personal relations that every Chinese carefully cultivates. It is the primary means of getting ahead, in the absence of a proper commercial legal system.⁵⁴ In other words, *guanxi* establishes obligations to exchange favors in future business activities.⁵⁵ Even within the Chinese bureaucracy, *guanxi* prevails over legal interpretations. Although networking is important anywhere to do business, the difference in China is that “*guanxi* networks are not just commercial, but also social, involving the exchange both of favor and affection.”⁵⁶ Firms that have special *guanxi* connections and give preferential treatment to one another are known as members of a *guanxihu* network.⁵⁷ Sunny Zhou, general manager of Kuming Lida Wood and Bamboo Products, states that when he shops for lumber, “The lumber price varies drastically, depending on whether one has strong *guanxi* with the local administrators.”⁵⁸ Western managers should thus anticipate extended preliminary visiting (relationship building), in which the Chinese expect to learn more about them and their trustworthiness. The Chinese also use this opportunity to convey their deeply held principles. They attach considerable importance to mutual benefit.⁵⁹

Americans often experience two negotiation stages with the Chinese: the technical and the commercial. During the long technical stage, the Chinese want to hammer out every detail of the proposed product specifications and technology. If there are two teams of negotiators, it may be several days before the commercial team is actually called in to deal with aspects of production, marketing, pricing, and so forth. However, the commercial team should sit in on the first stage to become familiar with the Chinese negotiating style.⁶⁰ The Chinese negotiating team is usually about twice as large as the Western team; about a third of the time is spent discussing technical specifications, and another third on price negotiations, with the rest devoted to general negotiations and posturing.⁶¹

The Chinese are among the toughest negotiators in the world. American managers must anticipate various tactics, such as their delaying techniques and their avoidance of direct, specific answers: Both ploys are used to exploit the known impatience of Americans. The Chinese frequently try to put pressure on Americans by “shaming” them, thereby implying that the Americans are trying to renege on the friendship—the basis of the implicit contract. Whereas Westerners come to negotiations with specific and segmented goals and find it easy to compromise, the Chinese are reluctant to negotiate details. They find it difficult to compromise and trade because they have entered negotiations with a broader vision of achieving development goals for China, and they are offended when Westerners don’t internalize those goals.⁶² Under these circumstances, the Chinese will adopt a rigid posture, and no agreement or contract is final until the negotiated activities have actually been completed.

Successful negotiations with the Chinese depend on many factors. Research by Fang et al. found the top success factors to be sincerity on behalf of the Western team, their team’s preparation, technical expertise, patience, knowledge of PRC (People’s Republic of China) business practices, and good personal relationships.⁶³ Generally speaking, patience, respect, and experience are necessary prerequisites for anyone negotiating in China. For the best outcomes, older, more experienced people are more acceptable to the Chinese in cross-cultural negotiations. The Chinese want to deal with the top executive of an American company, under the assumption that the highest officer has attained that position by establishing close personal relationships and trust with colleagues and others outside the

(Continued)

organization. Western delegation practices are unfamiliar to them, and they are reluctant to come to an agreement without the presence of the Chinese foreign negotiator.⁶⁴ From the Western perspective, confusing jurisdictions of government ministries hamper decisions in negotiations. Americans tend to send specific technical personnel with experience in the task at hand; therefore, they have to take care in selecting the most suitable negotiators. In addition, visiting negotiating teams should realize that the Chinese are probably negotiating with other foreign teams, often at the same time, and will use that setup to play one company's offer against the others. On an interpersonal level, Western negotiators must also realize that, while a handshake is polite, physical contact is not acceptable in Chinese social behavior, nor are personal discussion topics such as one's family. However, it is customary to give and take small gifts as tokens of friendship. Keep in mind the following tips:⁶⁵

- Some time before the trip, establish a contact in China who will act as a reference, be your interpreter and navigate you through the bureaucracy, legal system, and local business networks.
- Be very prepared before doing business in China. The Chinese plan meticulously and will know your business and possibly you inside out.
- Send some literature about your company in advance, and convey a set agenda before each meeting. Be punctual, or you will insult them before you start; begin with small, polite social talk, but avoid politics.
- Expect initial meetings to involve long, convoluted discussions that are really intended to get to know one another, establish trust, and find out the actual goals of your team.
- The Chinese are not confrontational and will not say "no." You will need to be observant and recognize that perhaps those items are not negotiable.
- Practice patience. Introducing delays and obstacles is a Chinese negotiating tactic. They will wait until the deadline is passed and demand another concession, knowing that the Westerners are focused on their deadline for departure, so let them know your schedule is open and keep calm.
- Expect prolonged periods of stalemate; hang loose and don't say anything about the point in question. Try to change the momentum by, say, suggesting going for dinner.
- Refrain from exaggerated expectations and discount Chinese rhetoric about future prospects.
- Remember at all times to save "face" for everyone, and keep in mind the importance of trust and "guanxi" in negotiations.

In conclusion, it is evident that China's rapidly changing business environment is evident in more professionalism in the negotiation process. At the same time, research by Fang et al. shows that "one should not underestimate the impact of culture on Chinese business negotiations. Western companies that seek to succeed in China need to demonstrate sincerity and commitment in conducting business in order to gain the Chinese partner's trust as this appears to be the ultimate predictor for success of business relations in China."⁶⁶

Context in Negotiations

As discussed in Chapter 4, much of the difference in communication styles is attributable to whether you belong to a high-context or low-context culture (or somewhere in between, as shown in Exhibit 4-4). In low-context cultures such as that in the United States, conflict is handled directly and explicitly. It is also regarded as separate from the person negotiating—that is, the negotiators draw a distinction between the people involved and the information or opinions they represent. They also tend to negotiate on the basis of factual information and logical analysis. That approach to conflict is called **instrumental-oriented conflict**.⁶⁷ In high-context cultures, such as in the Middle East, the approach to conflict is called **expressive-oriented conflict**—that is, the situation is handled indirectly and implicitly, without clear delineation of the situation by the person handling it. Such negotiators do not want to get in a confrontational situation because it is regarded as insulting and would cause a loss of "face," so they tend to use evasion and avoidance if they cannot reach agreement through emotional appeals. Their avoidance and inaction conflict with the expectations of the low-context negotiators who are looking to move ahead with the business at hand and arrive at a solution.

The differences between high- and low-context cultures that often lead to conflict situations are summarized in Exhibit 5-6. Most of these variables were discussed previously in

EXHIBIT 5-6 Negotiation Conflicts Between Low-Context and High-Context Cultures⁶⁸

Low-Context Conflict Area	High-Context Conflict Area
Explicit and direct; verbal; linear presentation of facts, rationale, analysis.	Implicit, indirect discussion and decision-making; non-verbal; may be circular logic.
Individualistic; tend to be short-term-oriented.	Collective; group motivations and decisions by consensus
Task-oriented. Up-front, impatient, sometimes confrontational; action and solution directive.	Tend to be long-term-oriented “Face” and relationship-oriented; indirect, non-confrontational, patient.

this chapter or in Chapter 4. They overlap because the subjects, culture, and communication are inseparable and because negotiation differences and conflict situations arise from variables in culture and communication.

The point here is, how can a manager from France, Japan, or Brazil, for example, manage conflict situations? The solution, as discussed previously, lies mainly in one's ability to know and understand the people and the situation to be faced. Managers must be prepared by developing an understanding of the cultural contexts in which they will be operating. What are the expectations of the persons with whom they will be negotiating? What kinds of communication styles and negotiating tactics should they expect, and how will they differ from their own? It is important to bear in mind one's own expectations and negotiating style, as well as to be aware of the other parties' expectations. Managers ought to consider in advance what it will take to arrive at a win-win solution. Often it helps to use the services of a host-country adviser or mediator, who may be able to help with early diffusion of a conflict situation.

DECISION MAKING

Negotiation actually represents the outcome of a series of small and large decisions. The decisions include those made by each party before actual negotiations start—for example, in determining the position of the company and what fallback proposals it may suggest or accept. The decisions also include incremental decisions, made during the negotiation process, on how to react and proceed, when to concede, and on what to agree or disagree. Negotiation can thus be seen as a series of explicit and implicit decisions, and the subjects of negotiation and decision making become interdependent.

For instance, sometimes just the way a decision is made during the negotiation process can have a profound influence on the outcome, as this example from a book by Copeland and Griggs shows:

In his first loan negotiation, a banker new to Japan met with seven top Japanese bankers who were seeking a substantial amount of money. After hearing their presentation, the American agreed on the spot. The seven Japanese then conferred among themselves and told the American they would get back to him in a couple of days regarding whether they would accept his offer or not. The American banker learned a lesson he never forgot.⁶⁹

The Japanese bankers expected the American to negotiate, to take time to think it over, and to consult with colleagues before giving the final decision. His immediate decision made them suspicious, so they decided to reconsider the deal.

There is no doubt that the speed and manner of decision making affect the negotiation process. In addition, how well negotiated agreements are implemented is affected by the speed and manner of decision making. In that regard, it is clear that the effective use of technology is playing an important role, especially when dealing with complex cross-border agreements in which the hundreds of decision makers involved are separated by time and space.

The role of decision making in management, however, goes far beyond the finite occasions of negotiations. It is part of the manager's daily routine—from operational-level, programmed decisions requiring minimal time and effort to those nonprogrammed decisions of far broader scope and importance, such as the decision to enter into a joint venture in a foreign country.

The Influence of Culture on Decision Making

It is crucial for international managers to understand the influence of culture on decision-making styles and processes. Culture affects decision making both through the broader context of the nation's institutional culture, which produces collective patterns of decision making, and through culturally based value systems that affect each individual decision maker's perception or interpretation of a situation.⁷⁰ The ways in which these factors can come together to affect people's negotiations and decisions is illustrated in the following Under the Lens feature.



UNDER THE LENS

*Negotiations and Decisions to Save the Eurozone System*⁷¹

*Within each class, attitudes are hardening against the other. "The birth defect of the euro was to put very different cultures of economic activity in the straitjacket of a single currency."*⁷²

In 2012 a major issue at the intersection of politics, economics, and business was how the Eurozone crisis would get resolved. The outcome of the negotiations and decisions among representatives of the euro countries would have lasting repercussions for businesses around the world, and European businesses in particular. At the heart of the negotiations among the Eurozone countries and the IMF were the potential effects of a massive financial rescue plan for Greece, which was threatened with default. In spite of the passage of radical reforms and austerity cuts in Greece, the European Commission, European Central Bank, and the IMF were demanding further cuts from Greece in order to receive the \$170 billion in bailout money that Greece needs in order to avert default.

The Italian economy, the seventh largest in the world, was also in a fragile state with massive debt, and the Prime Minister, Mario Monti, was taking drastic measures to avoid default; there were fears that a default of such a large economy could bring a default of the entire Euro system. At stake in the negotiations was the Eurozone pact, and the continuation of the euro itself.

Italy's problems have become the world's problems, and Monti must fix Italy to prevent another global financial crisis.

*And as Italy goes, so goes the euro. Italy looms as the biggest threat to the embattled currency's survival, because Italy is both too big to fail and too big to save.*⁷³

Mario Monti, then, an unelected official from academia, has almost uncontested control of such weighty decisions which will determine both Italy's fate and that of the euro. His negotiation and decision-making capabilities are vital to so many people. But Monti believes his detachment from the politicians is what is needed to do the job; he has a reputation for being very willful in achieving his objectives.⁷⁴

As negotiations continued, cultural, historical, and lifestyle differences among the major countries involved brought out old prejudices that threatened to derail the negotiations. With Germany as the richest and most stable economy in the Eurozone, its people were resentful and fearful of the prospect of "bailing out" Greece. Angela Merkel, the German prime minister, herself very conservative and consultative, was in the difficult position of making decisions both to protect the German economy and its people, and at the same time needing to play a prominent role in decisions to aid Greece and save the euro system. As such, Ms. Merkel was holding out for Greece and Italy to take on strict reforms. Germany has a much respected manufacturing and export base, and the fear was that the crisis would undermine their businesses. In fact, in February 2012 Angel Gurría, the O.E.C.D.'s secretary general, in a speech in Berlin, congratulated Germany on a well-managed economy, saying that Germany's "growth model has been so successful in navigating through the stormy waters of the crisis."

Interviews by Margaret Warner of PBS in February 2012 revealed the depth of angst of the German people. At the heart of their culture is a strong desire for security and safety, no doubt partly evolving from the German history. Germans are very conservative and cautious, with a focus on frugality and

saving. The economy is largely based on cash, not credit; a home mortgage requires a minimum of a 30% down payment, and the banks are very conservative—hence Germany had not had the real estate bubble and subsequent meltdown as in the United States. As such, the German people feel that they should not have to bail out their free-spending southern neighbors. Germany had already taken painful austerity measures a decade ago in absorbing the poorer East Germany. They now have a much respected and robust manufacturing and export base. In addition, their recent sacrifices, such as raising the retirement age to 67, had resulted in lower unemployment and deficits. An additional bone of contention with the German people is that while they pay high taxes, it is commonly understood that a large proportion of Greeks and Italians don't pay taxes.

In all, the negotiations were being undermined by a lack of trust among the EU members. Greeks are very proud of their cultural heritage and felt that negotiations were going to “deprive Greece of the last trace of national sovereignty” according to Georgios Karatzaferis, who heads the right-wing Popular Orthodox Rally; he expressed frustration with German officials, who have taken a hard line in the negotiations. “Greece cannot survive outside the E.U.,” he said, “but it can do without a German jackboot.”⁷⁵

For their part, Greeks are skilled negotiators and will not be pushed into decisions before they are ready. Business interactions are formal and are based on friendship and trust. This became clear at all levels in the Eurozone negotiations. Within Greece, as the plan for the austerity measures demanded by the Greek creditors went to parliament, it was clear that there would be a lot of debate over then-Prime Minister Papademos's plan:

*The [Greek] prime minister's comments kicked off what is expected to be a long and chaotic weekend of brinkmanship, with Greek politicians fighting for their survival in the face of unpopular austerity measures and European leaders demanding more concessions in a climate of growing urgency—and mistrust—between Greece and its foreign lenders.*⁷⁶

The Greek people are fearful of a continued downward spiral in their economy under the austerity measures; they blame the tightly knit elite who have run the country for so long. However, they will admit that “The Greek way of life is to spend and then overspend.” At the same time, everyone complains that the bureaucracy is a menace. “*Fakelaki* (literally “little envelopes”) are a legendary feature of society. If you're starting a business, there are lots of signatures you need, and handing over the cash-stuffed envelopes has traditionally been part of the process.”⁷⁷ A quarter of all Greek companies have gone out of business since 2009, and half of all small businesses in the country say they are unable to meet payroll.⁷⁸

Meanwhile, businesses in Italy and elsewhere which depended on clients in Greece, Spain, Portugal, and other hurting countries were suffering because their good customers had no cash and no credit. This was relayed in the PBS interview with Roberto Belloli, CEO of Antonio Aspesi Srl in the fashion industry. As a result, he said the company had to retrench. However, Italy's labor laws made it extremely hard to fire anyone, and laying off an employee costs the company 60 months of salary.

The business style in Italy depends on whether you are dealing with someone from the north or the south:

In the north, people are direct, see time as money, and get down to business after only a brief period of social talk.

*In the south, people take a more leisurely approach to life and want to get to know the people with whom they do business.*⁷⁹

Italians prefer to negotiate with high-ranking people; hierarchy is very important to them. In addition, negotiations are likely to be very protracted. Your image is likely to be just as important to your Italian counterparts as the specific business objectives. Networking is important since they like to do business with people they know and trust and also like to conduct face-to-face meetings.⁸⁰

As uncertainty took its toll on all sides it was clear that “*Within each class, attitudes are hardening against the other. The birth defect of the euro was to put very different cultures of economic activity in the straitjacket of a single currency.*”⁸¹ As the situation worsened, national identities hardened, further hampering negotiations.

At the time of you reading this there are likely to have been many developments in the Eurozone crisis. You could discuss what led up to the crisis, what cultural, economic, historical, and lifestyle differences contributed to the situation, and what part those factors played in the negotiations and decisions by all parties.

The extent to which decision making is influenced by culture varies among countries. For example, Hitt, Tyler, and Park have found a “more culturally homogenizing influence on the Korean executives' cognitive models” than on those of U.S. executives, whose individualistic tendencies lead to different decision patterns.⁸² The ways that culture influences an executive's

decisions can be studied by looking at the variables involved in each stage of the rational decision-making process. These stages are (1) defining the problem, (2) gathering and analyzing relevant data, (3) considering alternative solutions, (4) deciding on the best solution, and (5) implementing the decision.

One of the major cultural variables affecting decision making is whether a people tend to assume an objective approach or a subjective approach. Whereas the Western approach is based on rationality (managers interpret a situation and consider alternative solutions based on objective information), this approach is not common throughout the world. Latin Americans, among others, tend to be more subjective, basing decisions on emotions.

Another cultural variable that greatly influences the decision-making process is the risk tolerance of those making the decision. Research shows that people from Belgium, Germany, and Austria have a considerably lower tolerance for risk than people from Japan or the Netherlands—whereas American managers have the highest tolerance for risk.⁸³

In addition, an often-overlooked but important variable in the decision-making process is the manager's perception of the locus of control over outcomes—whether that locus is internal or external. Some managers feel they can plan on certain outcomes because they are in control of events that will direct the future in the desired way. In contrast, other managers believe that such decisions are of no value because they have little control over the future—which lies in the hands of outside forces, such as fate, God, or nature. American managers believe strongly in self-determination and perceive problem situations as something they can control and should change. However, managers in many other countries, Indonesia and Malaysia among them, tend to be resigned to problem situations and do not feel that they can change them. Obviously, these different value systems will result in a great difference in the stages of consideration of alternative actions and choice of a solution, often because certain situations may or may not be viewed as problems in the first place.

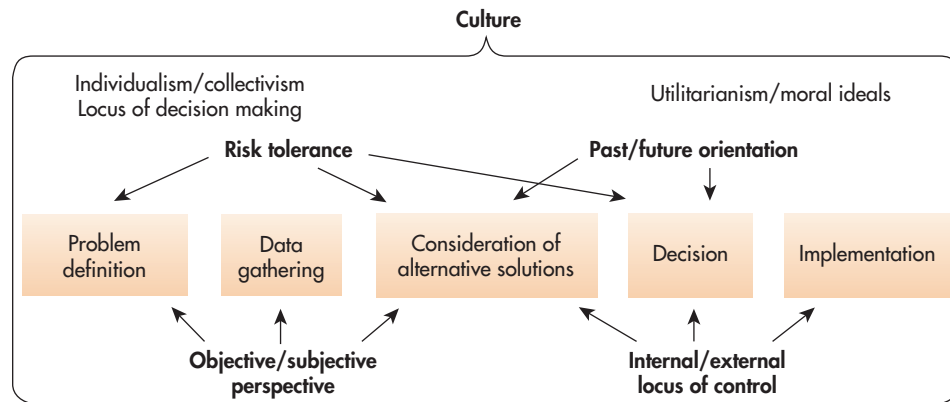
Yet another variable that affects the consideration of alternative solutions is how managers feel about staying with familiar solutions or trying new ones. Many managers, particularly those in Europe, value decisions based on past experiences and tend to emphasize quality. Americans, on the other hand, are more future oriented and look toward new ideas to get them there.

Approaches to Decision Making

In addition to affecting different stages of the decision-making process, value systems influence the overall approach of decision makers from various cultures. The relative level of *utilitarianism versus moral idealism* in any society affects its overall approach to problems. Generally speaking, utilitarianism strongly guides behavior in the Western world. Research has shown that Canadian executives are more influenced by a short-term, cost–benefit approach to decision making than their Hong Kong counterparts.

Another important variable in companies' overall approach to decision making is that of *autocratic versus participative leadership*. In other words, who has the authority to make what kinds of decisions? A society's orientation—whether it is individualistic or collectivist (see Chapter 3)—influences the level at which decisions are made. In many countries with hierarchical cultures—Germany, Turkey, and India, among others—authorization for action has to be passed upward through echelons of management before final decisions can be made. Most employees in these countries simply expect the autocrat—the boss—to do most of the decision making and will not be comfortable otherwise. Even in China, which is a highly collectivist society, employees expect autocratic leadership because their value system presupposes the superior to be automatically the most wise. In comparison, decision-making authority in Sweden is very decentralized. Americans talk a lot about the advisability of such participative leadership, but in practice they are probably near the middle between autocratic and participative management styles.

Arab managers have long traditions of consultative decision making, supported by the Qur'an and the sayings of Muhammad. However, such consultation occurs more on a person-to-person basis than during group meetings and thus diffuses potential opposition.⁸⁴ Although business in the Middle East tends to be transacted in a highly personalized manner, the final decisions are made by the top leaders, who feel that they must impose their will for the company to be successful. In comparison, in cultures that emphasize collective harmony, such as Japan, participatory or group decision making predominates, and consensus is important. The best-known example is the bottom-up (rather than top-down) decision-making process used in most Japanese companies, described in more detail in the following Comparative Management in Focus section.

EXHIBIT 5-7 Cultural Variables in the Decision-Making Process

One final area of frequent incongruence concerns the relative speed of decision making. A country's culture affects how fast or slow decisions tend to be made. The relative speed may be closely associated with the level of delegation, as just discussed—but not always. The pace at which decisions are made can be very disconcerting for outsiders. North Americans and Europeans pride themselves on being decisive; managers in the Middle East, with a different sense of temporal urgency, associate the importance of the matter at hand with the length of time needed to make a decision. Without knowing this cultural attitude, a hasty American would insult an Egyptian; a quick decision, to the Egyptian, would reflect a low regard for the relationship and the deal.

Exhibit 5-7 illustrates, in summary form, how all the variables just discussed can affect the steps in the decision-making process.



COMPARATIVE MANAGEMENT IN FOCUS

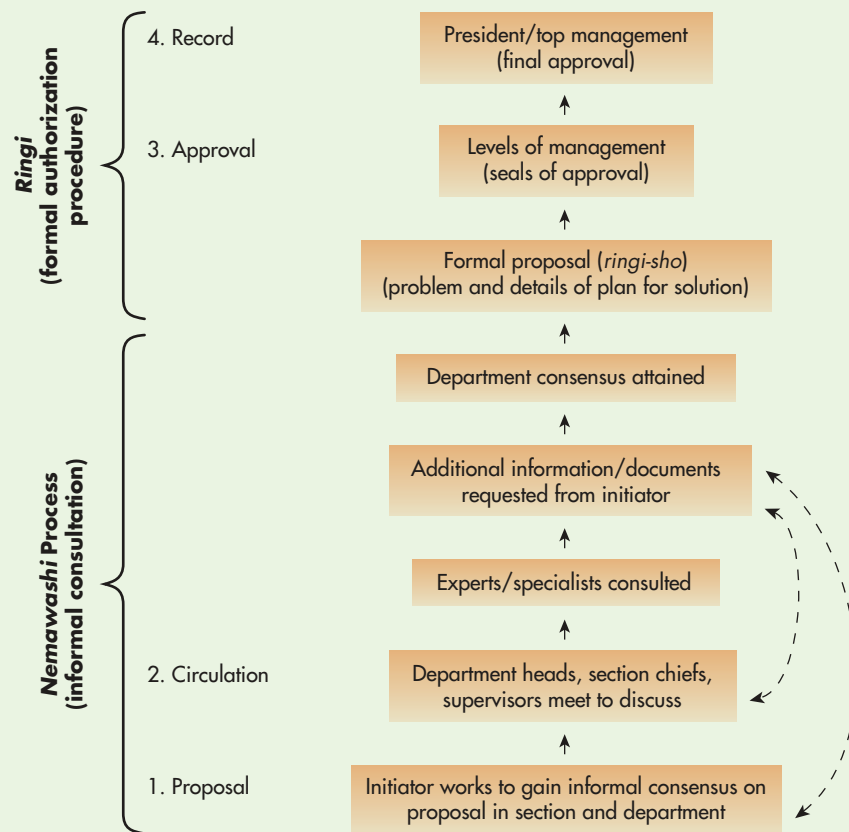
Decision Making in Japanese Companies

Japanese companies are involved in joint ventures throughout the world, especially with U.S. companies. The GM-Toyota joint venture agreement process, for example, was the result of more than two years of negotiation and decision making; in similar alliances, Americans and Japanese are involved in decision making at all levels on a daily basis. The Japanese decision-making process differs greatly not only from the U.S. process but from that of many other countries—especially at the higher levels of their organizations.

An understanding of the Japanese decision-making process—and indeed of many Japanese management practices—requires an understanding of Japanese national culture. Much of the Japanese culture, and therefore the basis of Japanese working relationships, can be explained by the principle of *wa*, meaning “peace and harmony.” This principle is one aspect of the value the Japanese attribute to *amae*, meaning “indulgent love,” a concept probably originating in the Shinto religion, which focuses on spiritual and physical harmony. *Amae* results in *shinyo*, which refers to the mutual confidence, faith, and honor required for successful business relationships. The principle of *wa* influences the work group, the basic building block of Japanese work and management. The Japanese strongly identify with their work groups, where the emphasis is on cooperation, participative management, consensus problem solving, and decision making based on a patient, long-term perspective. Open expression of conflict is discouraged, and it is of utmost importance to avoid embarrassment or shame—to lose face—as a result of not fulfilling one's obligations. These elements of work culture generally result in a devotion to work, a collective responsibility for decisions and actions, and a high degree of employee productivity. It is this culture of collectivism and shared responsibility that underlies the Japanese *ringi* system of decision making.

In the *ringi* system, the process works from the bottom up. Americans are used to a centralized system, where major decisions are made by upper-level managers in a top-down approach typical of individualistic societies. The Japanese process, however, is dispersed throughout the organization, relying on group consensus.

(Continued)

EXHIBIT 5-8 Decision-Making Procedure in Japanese Companies

The *ringi* process is one of gaining approval on a proposal by circulating documents to those concerned throughout the company. It usually comprises four steps: proposal, circulation, approval, and record.⁸⁵ Usually the person who originates the written proposal, which is called a *ringi-sho*, has already worked for some time to gain informal consensus and support for the proposal within the section and then from the department head.⁸⁶ The next step is to attain a general consensus in the company from those who would be involved in implementation. To this end, department meetings are held, and, if necessary, expert opinion is sought. If more information is needed, the proposal goes back to the originator, who finds and adds the required data. In this way, much time and effort—and the input of many people—go into the proposal before it becomes formal.⁸⁷

Up to this point, the process has been an informal one to gain consensus; it is called the *nemawashi* process. Then the more formal authorization procedure begins, called the *ringi* process. The *ringi-sho* is passed up through successive layers of management for approval—the approval made official by seals. In the end, many such seals of approval are gathered, thereby ensuring collective agreement and responsibility and giving the proposal a greater chance of final approval by the president. The whole process is depicted in Exhibit 5-8.

The *ringi* system is cumbersome and very time-consuming prior to the implementation stage, although implementation is facilitated because of the widespread awareness of and support for the proposal already gained throughout the organization. However, its slow progress is problematic when decisions are time-sensitive. This process is the opposite of the Americans' top-down decisions, which are made quite rapidly and without consultation, but which then take time to implement because unforeseen practical or support problems often arise.

Another interesting comparison is often made regarding the planning horizon (aimed at short- or long-term goals) in decision making between the American and Japanese systems. The Japanese spend considerable time in the early stages of the process defining the issue, considering what the issue is all about, and determining whether there is an actual need for a decision. They are more likely than Americans to consider an issue in relation to the overall goals and strategy of the company. In this

manner, they prudently look at the “big picture” and consider alternative solutions, instead of rushing into quick decisions for immediate solutions, as Americans tend to do.⁸⁸

Of course, in a rapidly changing environment, quick decisions are often necessary—to respond to competitors’ actions, a political uprising, and so forth—and it is in such contexts that the *ringi* system sometimes falls short because of its slow response rate. The system is, in fact, designed to manage continuity and to avoid uncertainty, which is considered a threat to group cohesiveness.⁸⁹

CONCLUSION

It is clear that competitive positioning and long-term successful operations in a global market require a working knowledge of the decision-making and negotiating processes of managers from different countries. These processes are complex and often interdependent. Although managers may make decisions that do not involve negotiating, they cannot negotiate without making decisions, however small, or they would not be negotiating. In addition, managers must understand the behavioral aspects of these processes to work effectively with people in other countries or with a culturally diverse workforce in their own countries.

With an understanding of the environment and cultural context of international management as background, we move next in Part 3 to planning and implementing strategy for international and global operations.

Summary of Key Points

1. The ability to negotiate successfully is one of the most important in international business. Managers must prepare for certain cultural variables that influence negotiations, including the relative emphasis on task versus interpersonal relationships, the use of general principles versus specific details, the number of people present, and the extent of their influence.
2. The negotiation process typically progresses through the stages of preparation, relationship building, exchange of task-related information, persuasion, and concessions and agreement. The process of building trusting relationships is a prerequisite to doing business in many parts of the world.
3. Culturally based differences in verbal and nonverbal negotiation behavior influence the negotiation process at every stage. Such tactics and actions include promises, threats, initial concessions, silent periods, interruptions, facial gazing, and touching; some parties resort to various dirty tricks.
4. The effective management of negotiation requires an understanding of the perspectives, values, and agendas of other parties and the use of a problem-solving approach.
5. Decision making is an important part of the negotiation process, as well as an integral part of a manager’s daily routine. Culture affects the decision-making process both through a society’s institutions and through individuals’ risk tolerance, their objective versus subjective perspectives, their perceptions of the locus of control, and their past versus future orientations.
6. The Internet is used increasingly to support the negotiation of contracts and resolution of disputes. Web sites that provide open auctions take away the personal aspects of negotiations, though those aspects are still essential in many instances.

Discussion Questions

1. Discuss the stages in the negotiation process and how culturally-based value systems influence these stages. Specifically, address the following:
 - Explain the role and relative importance of relationship-building in different countries.
 - Discuss the various styles and tactics that can be involved in exchanging task-related information.
 - Describe differences in culturally-based styles of persuasion.
 - Discuss the kinds of concession strategies a negotiator might anticipate in various countries.
2. Discuss the relative use of nonverbal behaviors, such as silent periods, interruptions, facial gazing, and touching, by people from various cultural backgrounds. How does this behavior affect the negotiation process in a cross-cultural context?
3. Describe what you would expect in negotiations with the Chinese and how you would handle various situations.
4. What are some of the differences in risk tolerance around the world? What is the role of risk propensity in the decision-making process?

5. Explain how objective versus subjective perspectives influence the decision-making process. What role do you think this variable has played in all the negotiations conducted and decisions made by Iraq and the United Nations?
6. Explain differences in culturally-based value systems relative to the amount of control a person feels he or she has over future outcomes. How does this belief influence the decision-making process?

Experiential Exercise

Exercise: Multicultural Negotiations

Goal

To experience, identify, and appreciate the problems associated with negotiating with people of other cultures.

Instructions (Note: Your professor will give out additional instruction sheets)

1. Eight student volunteers will participate in the role play. Four represent a Japanese automobile manufacturer, and four represent a U.S. team that has come to sell microchips and other components to the Japanese company. The remainder of the class will observe the negotiations.
2. The eight volunteers will divide into the two groups and then separate into different rooms, if possible. At that point, they will be given instruction sheets. Neither team can have access to the other's instructions. After dividing the roles, the teams should meet for 10 to 15 minutes to develop their negotiation strategies based on their instructions.
3. While the teams are preparing, the room will be set up using a rectangular table with four seats on each side. The Japanese side will have three chairs at the table with one chair set up behind the three. The American side of the table will have four chairs side by side.
4. Following these preparations, the Japanese team will be brought in, so they may greet the Americans when they arrive. At this point, the Americans will be brought in and the role play begins. Time for the negotiations should be 20 to 30 minutes. The rest of the class will act as observers and will be expected to provide feedback during the discussion phase.
5. When the negotiations are completed, the student participants from both sides and the observers will complete their feedback questionnaires. Class discussion of the feedback questions will follow.

Feedback Questions for the Japanese Team

1. What was your biggest frustration during the negotiations?
2. What would you say the goal of the American team was?
3. What role (e.g., decider, influencer, etc.) did each member of the American team play?
Mr. Jones
Mr./Ms. Smith
Mr./Ms. Nelson
Mr./Ms. Frost
4. How would you rate the success of each of the American team members in identifying your team's needs and appealing to them?
Mr./Ms. Jones, Vice President and Team Leader
Mr./Ms. Smith, Manufacturing Engineer

Mr./Ms. Nelson, Marketing Analyst
Mr./Ms. Frost, Account Executive

5. What strategy should the American team have taken?

Feedback Questions for the American Team

1. What was your biggest frustration during the negotiations?
2. What would you say the goal of the Japanese team was?
3. How would you rate the success of each of the American team members?
Mr. Jones, Vice President and Team Leader
Mr./Ms. Smith, Manufacturing Engineer
Mr./Ms. Nelson, Marketing Analyst
Mr./Ms. Frost, Account Executive
4. What would you say the goal of the American team was?
5. What role (e.g., decider, influencer, etc.) did each member of the Japanese team play?
Mr. Ozaka
Mr. Nishimuro
Mr. Sheno
Mr. Kawazaka
6. What strategy should the American team have taken?

Feedback Questions for the Observers

1. What was your biggest frustration during the negotiations?
2. What would you say the goal of the Japanese team was?
3. How would you rate the success of each of the American team members?
Mr./Ms. Jones, Vice President and Team Leader
Mr./Ms. Smith, Manufacturing Engineer
Mr./Ms. Nelson, Marketing Analyst
Mr./Ms. Frost, Account Executive
4. What would you say the goal of the American team was?
5. What role (e.g., decider, influencer, etc.) did each member of the Japanese team play?
Mr. Ozaka
Mr. Nishimuro
Mr. Sheno
Mr. Kawazaka
6. What strategy should the American team have taken?

Note: Instructions for this exercise will be given by your professor, from the Instructor's Manual.

Source: E. A. Diodati, in C. Harvey and M. J. Allard, *Understanding Diversity* (New York: HarperCollins Publishers, 1995). Used with permission.

Internet Resources

Visit the Deresky Companion Website at www.pearsonhighered.com/deresky for this chapter's Internet resources.

CASE STUDY

Facebook's Continued Negotiations in China¹

*We continue to evaluate entering China. . . . However, this market has substantial legal and regulatory complexities that have prevented our entry into China to date.*²

As Facebook filed for its IPO (initial public offering—symbol FB) on the stock market in February 2012 (from which the above quote was taken), investors questioned the company's ability to negotiate further expansion overseas to justify its goal of \$100 billion market value. As of that time, Facebook had 845 million users—making it the largest institution of all time; if it were a country it would be the world's third most populous country. Of Facebook's users, 80 percent are overseas; however, since six out of ten Internet users in the U.S. and Canada are Facebook's "friends," most of the company's growth must come from other countries. To date, the company's progress overseas has been impressive, although those markets are far less profitable than the home market.

*Facebook had 37 million monthly active users in Brazil, a nearly 300 percent increase from the year earlier. In India, the company had 46 million active users, 132 percent more than in 2010. By comparison, Facebook had 161 million active users in the United States, a 16 percent increase from the previous year.*³

The New York Times, February 1, 2012.

However, negotiations have been thwarted in accessing some important large markets such as China. This has led observers to comment that, as indicated in the company's IPO filing, Facebook's Asia strategy is India, Japan, and South Korea, because Internet censorship in China has left the company with near zero penetration. The Chinese government bars its citizens from direct access to Facebook; instead people are steered toward censored, home-grown social networks like Renren and Sina.

*Government agencies in China would probably want not only to censor postings but to have access to personal data posted by Chinese citizens. Much of the population can't afford the products and services needed for Facebook, including broadband Internet access, a personal computer, or a smartphone, Agrawal said.*⁴

The Boston Globe, February 6, 2012.

It's clear that Facebook's founder, Mark Zuckerberg, who is learning Mandarin and has made trips to China, is going to continue negotiations to pursue the Chinese market, saying that "We continue to evaluate entering China However, this market has substantial legal and regulatory complexities that have prevented our entry into China to date. If we fail to deploy or manage our operations in international markets successfully, our business may suffer."⁵ Local competitors in China are Renren Inc. and Sina Corp., which runs a popular Twitter-like microblogging service called Weibo.

While other Internet companies such as Google have tried to negotiate a compromise with the Chinese government, Facebook executives are clearly concerned about the prospect of citizens giving up their personal details to the government authorities, not knowing how that information might be used.

Some progress has been made. In April 2011, after several meetings between Facebook Chief Executive Officer Mark Zuckerberg and Baidu CEO Robin Li, Facebook signed an agreement with Baidu; however, the China website won't be integrated with Facebook's international service, and the start date was not confirmed. Facebook executives have had a number of meetings to negotiate agreements with various partners in China to enter the market, stating that "We are currently studying and learning about China, as part of evaluating any possible approaches that could benefit our users, developers and advertisers."⁶

In 2010 Google withdrew its search engine from China amid protests in the West about allowing content censoring. Websites such as Facebook, Twitter Inc., and Google's YouTube are blocked in China because they don't follow the government's self-censorship rules. China bans anything critical of the government and any pornography or gambling.

Clearly, Zuckerberg is planning to continue negotiations in China, but, as acknowledged in the IPO filing, “We do not know if we will be able to find an approach to managing content and information that will be acceptable to us and to the Chinese government.”⁷ Meanwhile, Facebook has opened a sales office in Hong Kong to give the company ready access to the 1 billion person-strong market if that ever changes.

Case Questions

1. You are probably a Facebook “friend.” What is your opinion about how it is used in your country?
2. Discuss the company’s approach to global expansion.
3. Do you think Facebook should operate in China even if it means complying with the restrictions there?

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