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How to Negotiate "Yes" Across Cultural Boundaries

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Cultural differences can influence business negotiations in significant and unexpected ways, as many a hapless dealmaker has learned. In some cases, it's a matter of ignorance or blatant disrespect, as with the American salesman who presented a potential Saudi Arabian client with a multimillion-dollar proposal in a pigskin binder, considered vile in many Muslim cultures. He was unceremoniously tossed out and his company blacklisted from working with Saudi businesses. But the differences can be much more subtle, arising from deep-seated cultural tendencies that influence how people interact—everything from how people view the role of the individual versus the group to their attitudes, say, about the importance of time or relationships. In response to these challenges, a great body of literature has emerged to help executives navigate differences not only in protocol and deportment but in deeper cultural tendencies as well.

But my research shows that there's another, equally treacherous, aspect to cross-border negotiation that's been largely overlooked in the literature: the ways that people from different regions come to agreement, or the processes involved in negotiations. Decision-making and governance processes, which determine either a "yes" or a "no," can differ widely from culture to culture, not just in terms of legal technicalities but also in terms of behaviors and core beliefs. In my experience observing and participating in scores of international negotiations, I've seen numerous promising deals fail because people ignored or underestimated the powerful differences in processes across cultures...

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What are the informal influences that can make or break a deal?

It's important to understand which people must sign the contract to finalize a deal, but that's often not enough. Many countries have webs of influence that are more powerful than the actual parties making the deal, even though those webs don't have the formal standing of, say, government agencies. In Japan, it may be the keiretsu— industrial groups that are linked by a web of business ties, lending, and cross-shareholdings. In Germany's financial sector, it might be the insurance giant Allianz. In Italy, it may be a set of powerful families. In Russia, it can be the Russian mafia and other protection rackets. Outsiders need to understand these webs and factor them into their negotiating approach. It's a lesson many companies have learned the hard way.

And influence on negotiations need not be driven by an informal, underlying power structure, as U.S. Stone Container Corporation learned. While negotiating the terms of a major forest project in Honduras, Stone Container's executives assumed that the Honduran president and his relevant ministries had the power to decide whether to allow the project and therefore dealt primarily with the president. But while the president did have the legal authority to make the deal and ultimately approved it, the company's proposal and negotiating strategy seemed to signal a possibly corrupt deal among elites. This inadvertently triggered the involvement of the Honduran Congress, labor unions, political parties, potential business competitors, indigenous people in the affected region, and domestic and international environmental groups. Had Stone taken into account the history of strained relationships between Honduras and the U.S. government and multinationals, as well as the fragile status of the presidency in this fledgling democracy, it could have developed a strategy that accommodated this informal web of potential influences. Instead, Stone's lack of foresight caused it to become enmeshed in an adversarial, multiparty process that ultimately failed. When interviewed for a Harvard Business School case, Stone executive Jerry Freeman likened the experience to being "caught in a drive-by shooting with no place to hide."

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U.S. companies like Stone—and others from cultures with strong legal systems—frequently underestimate the power of informal influences because they assume that foreign legal systems will enforce formal contracts just as they are expected to at home. What they may ultimately learn is that dispute resolution can look very different in different cultures. In Japan, which has a relatively small legal system and few lawyers, companies rely on relationships and negotiation to sort through most commercial disputes. Present-day Russia has practically no functioning judiciary. Many countries' legal systems are corrupt or controlled by local political powers.

The fact is, there can be a great gulf between the laws on the books and how things really work, as one U.S. electrical goods manufacturer learned after it entered a joint venture with a Chinese company and hired a local manager to run the Chinese operation. As described in Charles Olivier's 1996 WorldLink article, "Investing in China: 12 Hard Lessons," the company tried to expand its product line, but the Chinese manager balked, insisting there was no demand for the additional products. The U.S. management team tried to resolve the dispute through negotiations, and when the Chinese manager wouldn't budge, the team fired him—but he wouldn't leave. The local labor bureau refused to back the U.S. team, and when the U.S. executives tried to dissolve the venture, they discovered they couldn't recover their capital because Chinese law dictates that both sides need to approve a dissolution. A foreign law firm, hired at great expense, made no headway. It took some behind-the-scenes negotiation on the part of a local law firm to finally overcome the need for dual approval—an outcome that demanded local counsel well versed in the intricacies of Chinese culture.

In short, successful cross-border negotiators begin by discarding home-market presumptions and developing a clear map of the players who are likely to influence the formal and informal decision process. Only when you know exactly who these players are can you develop a strategy that targets their interests.

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How Negotiation-Specific Expectations Shape the Process

In addition to the general cultural differences that influence negotiations, different cultures will influence expectations as to what the specific process and outcome will look like. The expectations revolve around four key areas:

Underlying View of the Process

People may view the negotiation process as cooperative (win-win) or competitive (win-lose). Some people will seek mutual advantage; others won't. Making assumptions about which view the other side will take can be misleading and even dangerous.

Approach to Building Agreement

U.S. negotiators often seek agreement on specifics first, building up toward an overall deal. Their Chinese counterparts often focus first on what seems to many Americans to be a very general historical and national frame for discussion. Then, as many French negotiators do, they seek agreement on general principles, later working through the details. This tendency also manifests itself in thought processes: Many Chinese tend to reason about the whole while Westerners often proceed by breaking the whole into parts and reasoning incrementally.

Form of Agreement

What level of detail is required? In many parts of East Asia, negotiators are content with a fairly broad agreement that focuses on general principles rather than detailed rules. By contrast, North American and European executives often insist on a detailed contract in which as many contingencies as possible are foreseen.

Implementation of Agreement

Is adherence to an agreement expected or contingent? U.S. negotiators generally expect to stick with the letter of the contract, treating renegotiation as a very unusual, even aberrant, event. In many other cultures, an agreement is merely a starting point in what is expected to be an evolving relationship; renegotiation may occur as warranted under the assumption that all contingencies cannot possibly be foreseen. The precise terms are expected to unfold as the process does. Moreover, while a U.S. negotiator can rely on its court system to serve as a fairly reliable enforcer of contracts, there is little such expectation in many parts of the world.