

The Hidden Challenge of Cross-Border Negotiations

by James K. Sebenius



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International deal makers have
long bowed to local traditions and etiquette.
But new research suggests they also need
to understand something deeper – the subtle yet potent ways
that national culture shapes the governance
and decision-making process.

The Hidden Challenge of
**CROSS-BORDER
NEGOTIATIONS**

by James K. Sebenius

CULTURAL DIFFERENCES can influence business negotiations in significant and unexpected ways, as many a hapless deal maker 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. In these pages, I will examine how systematic differences in governance and decision making can disrupt cross-border negotiations, and I will offer advice on how to anticipate and overcome possible barriers on the road to yes.

Map the Players and the Process

In any negotiation, you are always interacting with individuals, but your real purpose is to influence a larger organization—representing a diverse set of interests—to produce a meaningful yes. In an international deal, just as at home, you need to know exactly who's involved in that larger decision process and what roles they play. But in unfamiliar territory, the answers might surprise you. Indeed, applying "home" views of corporate governance and decision making to international deals may seriously hinder the negotiation process. I find it's useful to break down the decision-making process into several constituent parts: Who are the players? Who decides what? What are the informal influences that can make or break a deal? Let's look at each of these factors, which can vary dramatically when you cross national borders.

Who are the players? If you're accustomed to deal making in the United States, you know that extra players beyond those representing the two companies may influence the deal: the SEC, the Federal Trade Commission, and the Justice Department, among others. In his book *Masters of the Universe*, Daniel J. Kadlec writes that when Travelers and Citicorp were contemplating a merger, the heads of both companies together visited Federal Reserve Chairman Alan Greenspan to get a reading on the Fed's likely attitude.

Abroad, you'll of course find extra players as well, but they will be different and often less obvious. For those executives experienced in North American shareholder-based corporate governance, it may come as a surprise to

discover that in Germany, labor has virtually equal representation on many supervisory boards of directors. It will probably be less surprising, though no less discomfiting, to discover that local party officials play an integral part in Chinese negotiating teams in the People's Republic, even when the Chinese company is nominally "private." In the European Union, various Brussels commissions may get involved in business negotiations. If an acquisition target has foreign subsidiaries, the skein of negotiating partners may grow even more tangled. All these constituencies bring their own interests to the table, as well as varying abilities to block or foster negotiations. Even GE, one of the most experienced acquirers, suffered a humiliating defeat in its attempted merger with Honeywell, in part because GE's management underestimated the nature and seriousness of European concerns about competitiveness and the potential for these concerns—and GE's European competitors—to obstruct the deal.

Another example is drawn from the research of my colleagues William A. Sahlman and Burton C. Hurlock: Near the time of the collapse of the Soviet Union, California-based venture capital firm Sierra Ventures was negotiating with the director of the Institute for Protein Research in Russia, hoping to get the rights to an apparently revolutionary biotechnology process. Marathon negotiations with the institute's management team—heroically bridging huge gaps between East and West, business and science, bureaucracy and venture capital—seemed as if they would finally culminate in an acceptable deal for both sides. Although the deal ultimately succeeded, nearing the finish line it suddenly became clear that several Moscow ministries, each with its own point of view and agenda, also had to approve the agreement. This posed a potentially fatal set of obstacles that could have been anticipated had the Sierra team made more than a perfunctory effort early on to learn about the real decision process.

Who decides what? Even if you know who's playing, a failure to understand each player's role—and who owns which decisions—can be very costly. For example, when Italian tire maker Pirelli sought to acquire its German rival, Continental Gummiwerke, Pirelli claimed control of a majority of Continental's shares and received tacit backing from Deutsche Bank and support from Gerhard Schröder, then Prime Minister of Lower Saxony, where Continental is based. In a U.S. transaction, merely owning enough equity often allows the acquirer to control the target. But not in this setting.

Unfortunately for Pirelli, German corporate governance provides a structure in which other key players can block the will of even a majority of shareholders. While the management board in most large German companies has day-to-day management responsibilities, it is only one of four sets of players—along with shareholders, a supervisory board, and labor—that can play a significant role in

any major decision. What's more, under union codetermination, labor elects fully half of the members of the supervisory board, which in turn elects the management board. And the management board can prevent any single shareholder, no matter how large his or her holdings, from voting more than 5% of the total company shares. Thus, having failed to gain real buy-in from all the players, especially labor and key managers, Pirelli couldn't complete the transaction, even though it claimed effective control over Continental's shares and had powerful allies—a humiliating defeat that cost the Italian company nearly half a billion dollars.¹

There are some impressive stories of executives deftly navigating these potential barriers—U.K.-based Vodafone's successful acquisition of Germany's Mannesmann is a notable recent example—and such cases might seem to herald major changes in German law and governance. But the circumstances and tactics in Vodafone's case were highly specific to the deal, and the general implications

Yet while Honda's prized relationship was at the level of the *operating* company (Rover), the Japanese company had not taken seriously enough the fact that the decision rights over a Rover sale are vested at the *parent* (BAe) level. From a financial standpoint, the move made sense for BAe, and it was perfectly legal. Yet Honda's cultural blinders made the sale seem inconceivable, and its disproportionate investments in Rover in effect created a major economic opportunity for BAe. The bottom line: Understanding both formal decision rights and cultural assumptions in less familiar settings can be vital. (For more on how cultural assumptions can influence negotiating behavior, see the sidebar "Cross-Cultural Etiquette and Behavior: The Basics.")

A final note on identifying decision rights: Even the experts may stumble over their assumptions. U.S. attorneys apparently told Bernard Arnault's French luxury conglomerate LVMH that companies traded on the New York Stock Exchange could not increase their share base by a significant amount without shareholder approval. With this understanding, LVMH acquired almost 35% of Gucci in a takeover bid.² However, it turns out that different stock rules apply to companies based outside the United States—Gucci, for instance, traded in New York but was chartered in the Netherlands and is headquartered in Florence. Gucci's defense team discovered this loophole and used it

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for Euro-governance seem limited. Deeply entrenched structures continue to blindside many a corporate suitor—and not just in Germany. In fact, versions of this cautionary tale could be repeated in locales as distinct as Switzerland and Japan, where boards of directors representing constituencies other than shareholders may exert powers unfamiliar to those accustomed to Anglo Saxon-style governance, including voting caps and the power to block share registration or voting of outside equity holders.

Cultural assumptions can sometimes make it very difficult to recognize or acknowledge who has formal decision rights. For example, when Honda invested heavily in an extensive relationship with British automaker Rover, workers and managers at the two companies developed very positive working relationships for more than a decade. The partnership intensified after the government sold Rover to British Aerospace (BAe), but as Rover continued to lose money, BAe decided to discard the relationship, abruptly selling Rover to BMW through a secretive deal that caught Honda completely unawares. The Japanese automaker considered its connection with Rover a long-term one, much like a marriage, and it had shared advanced product and process technology with Rover well beyond its effective contractual ability to protect these assets. Honda's leaders were dumbfounded and outraged that BAe could sell—and to a competitor, no less.

to shut down the deal. The company first issued 20% new shares to its employees in an ESOP-like transaction and then offered 42% additional new shares to a group controlled by François Pinault, Arnault's French rival. LVMH's massively diluted position in effect handed ultimate control to Pinault, leaving LVMH trapped as a relatively powerless minority shareholder in Gucci.

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

James K. Sebenius, who teaches and advises on deal making, is the Gordon Donaldson Professor of Business Administration at Harvard Business School in Boston and a member of the executive committee for the Program on Negotiation based at Harvard Law School.

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, multi-party 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."

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 capi-

tal 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.

Adapt Your Approach

Unfortunately, however, knowing who's involved in the process is only half the battle. While you negotiate with people, you are typically seeking to influence the outcome of an organizational *process*. That process can look different in different cultures, and different processes may call for radically different negotiation strategies and tactics. Even seasoned executives often fail to adapt their approaches to those different processes, with costly consequences. While it's difficult to generalize, such processes tend to take one of several forms: top down, consensus, and multistage coalition building.

Top Down. In some cases, you will deal with a "real boss," a top-down authority who won't delegate in any meaningful way and will ultimately make the decision unilaterally. When there is the local equivalent of a very much in charge Admiral Rickover, Harold Geneen, or Robert Moses, revealing key information or making premature concessions to those not genuinely in the decision loop can work to your disadvantage. The most effective negotiators avoid making deals with relatively powerless agents who function as important messengers or emissaries but not as powers in their own right. Instead, these negotiators find ways to interact directly with the boss—or, if that's not possible, to connect with people outside the process who have close ties to or influence over the boss.

In some cultures, even if the boss delegates authority, going directly to the top can sometimes be more effective. For example, when one Italian industrial products firm wished to acquire a large division of a French conglomerate, it first made friendly overtures to the target unit. But as it became clear that unit management wouldn't even consider discussions about a possible sale, the Italian chief went quietly to the top. He eventually closed the deal with the boss, who—consistent with that company's top-down culture and, in fact, much of French corporate governance—simply "crammed it down" on the division, softening the blow somewhat by offering any reluctant managers a chance to be absorbed into the

CROSS-CULTURAL ETIQUETTE AND BEHAVIOR: THE BASICS

Lapses in etiquette can trip up negotiations on two levels: the visible manifestations of protocol and deportment, and the deeper cultural characteristics that influence how people interact in subtle yet powerful ways.

PROTOCOL AND DEPORTMENT. Books on regional protocol and deportment offer a stew of dos and don'ts that attempt to generalize about the specifics of surface behavior. To quote a handful of rules from Dean Allen Foster's *Bargaining Across Borders*: Never show the sole of your shoe to an Arab, for it is dirty and represents the bottom of the body. Look directly and intently into a French associate's eye when making an important point, but avoid direct eye contact in Southeast Asia until the relationship is firmly established. In Italy, don't touch the side of your nose; it is a sign of distrust. The lists go on and on and can certainly help you avoid mistakes. But the rules are so complex and detailed that it's difficult to keep them straight, and the likelihood of regional variation further complicates matters.

Nonetheless, negotiators would do well to consider a range of questions about these behaviors when preparing for international negotiations, either by consulting the literature or by engaging in conversations with people who have experienced the culture at hand. I've outlined the categories of surface behaviors most likely to affect the tenor of negotiations. While the list at right is not exhaustive and must be read in light of obvious caveats about regional, professional, and national variation, seeking answers to these questions will at least provide a degree of familiarity with the basic dos and don'ts in any given culture.

Sensitivity to these basics allows you to avoid giving offense, demonstrate respect, enhance camaraderie, and strengthen communications. But cultural codes of protocol and deportment are not likely to interfere dramatically in your negotiations, absent blatant disrespect.

Dos and Don'ts

Greetings	How do people greet and address one another? What role do business cards play?
Degree of Formality	Will my counterparts expect me to dress and interact formally or informally?
Gift Giving	Do businesspeople exchange gifts? What gifts are appropriate? Are there taboos associated with gift giving?
Touching	What are the attitudes toward body contact?
Eye Contact	Is direct eye contact polite? Is it expected?
Deportment	How should I carry myself? Formally? Casually?
Emotions	Is it rude, embarrassing, or usual to display emotions?
Silence	Is silence awkward? Expected? Insulting? Respectful?
Eating	What are the proper manners for dining? Are certain foods taboo?
Body Language	Are certain gestures or forms of body language rude?
Punctuality	Should I be punctual and expect my counterparts to be as well? Or are schedules and agendas fluid?

DEEPER CULTURAL CHARACTERISTICS. Somewhat more difficult to see are the underlying cultural tendencies affecting how people interact, such as the relative emphasis on the individual versus the group and on the deal versus the relationship. Indeed, some compare culture to an iceberg: The danger of collision is not so much with the part you see but with what's below.

The idea that such deeper cultural traits can profoundly affect negotiation is not new. In an influential 1960 *Harvard Business Review* article "The Silent Language in Overseas Business" (May–June), anthropologist Edward T. Hall, along with collaborator Mildred Reed Hall, developed four categories of underlying cultural variables that may drive surface behavior, summarized below.

Edward T. Hall's "Silent Language"

Relationships

Is the culture deal-focused or relationship-focused?

In deal-focused cultures, relationships grow out of deals; in relationship-focused cultures, deals arise from already developed relationships.

Communication

Are communications indirect and "high context" or direct and "low context"?

Do contextual, nonverbal cues play a significant role in negotiations, or is there little reliance on contextual cues?

Do communications require detailed or concise information?

Many North Americans prize concise, to-the-point communications. Many Chinese, by contrast, seem to have an insatiable appetite for detailed data.

Time

Is the culture generally considered to be "monochronic" or "polychronic"?

In Anglo-Saxon cultures, punctuality and schedules are often strictly considered. This monochronic orientation contrasts with a polychronic attitude, in which time is more fluid, deadlines are more flexible, interruptions are common, and interpersonal relationships take precedence over schedules. For example, in contrast to the Western preference for efficient deal making, Chinese managers are usually less concerned with time.

Space

Do people prefer a lot of personal space or not much?

In many formal cultures, moving too close to a person can produce extreme discomfort. By contrast, a Swiss negotiator who instinctively backs away from his up-close Brazilian counterpart may inadvertently convey disdain.

Complementing Hall's work, academic Geert Hofstede conducted surveys, beginning in 1980, of more than 60,000 IBM employees in more than 40 countries to develop four dimensions of cultural differences (shown below). I have renamed some of Hofstede's categories in order to communicate their essence more clearly in the context of negotiation.

Hofstede's Cultural Dimensions

Distribution of Power

Are significant power disparities accepted? Are organizations run mostly from the top down, or is power more widely and more horizontally distributed?

Tolerance for Uncertainty

How comfortable are people with uncertainty or unstructured situations, processes, or agreements?

Individualism Versus Collectivism

Does the culture emphasize the individual or the group?

Harmony Versus Assertiveness

Does the culture emphasize interpersonal harmony or assertiveness?

In addition to those characteristics raised by Hall and Hofstede, there are other cultural issues to consider, such as a society's views on fairness and justice or how a culture accords status (by accomplishment, knowledge, social position, age, and so forth).

French parent. This strategy must be used cautiously, however. It can easily backfire when subordinate players have opportunities to sabotage the deal or erode its effectiveness.

What's more, it can be risky to impute omnipotence even to apparently powerful bosses. U.S. executives almost reflexively ask, "Who is the real decision maker?" But the answer can be misleading, as Stone Container learned in its negotiations with the Honduran president. This is not a problem limited to less-developed countries. Even in negotiating with U.S. presidents, parties such as the Shah of Iran or South Vietnamese leaders have made deals or reached critical understandings, only to learn later that limits on presidential power would prevent the deal from transpiring as expected. And even in one-party, relatively authoritarian countries, deals at the top may not translate into action on the ground.

The case of Armand Hammer's protracted negotiations to form, and later manage, a joint venture between Hammer's Occidental Petroleum (Oxy) and the state-run China National Coal Development Corporation (CNCDC) reveals how even the highest-level backing can be insufficient. Hammer and China's then-paramount leader Deng

team; at other times, it requires agreement from the broader enterprise and can include external stakeholders and governments.

When a consortium of U.S. companies submitted a proposal to assist in building a dam in the Three Gorges section of China's Yangtze River—a project debated by the Chinese for more than 70 years—they were blindsided by the consensus process. The consortium's negotiating team largely directed its efforts at a single agency, the Yangtze Valley Planning Office (YVPO). But in China, bureaucratic units like the YVPO are explicitly ranked, and no one unit has authority over another of the same rank; permission from above is required if there is disagreement. As a result, decisions are pushed up to the highest authority possible, overloading the top levels of bureaucracy. The only practical solution is consensus, which has become a cornerstone of the modern Chinese bureaucracy.

To move a process along, each affected unit must engage in a complex bargaining system to establish compatible goals and to protect interests. By failing to appreciate the involvement of these other units, the U.S. team didn't anticipate enemies or, even more important, help potential allies back its plan. (Hampered by U.S. govern-

ment opposition to the project—driven by environmental and human rights concerns—the U.S. team also made some classic negotiation errors, such as failing to understand the other side's interests. For example, the team's proposal emphasized efficient machinery and a lean labor force, while maximum employment is one of China's top priorities. With a little more thought, the U.S.

group might have placed greater stress on elements such as technology transfer, training, and foreign investment, rather than cost cutting and speed.)

The need for consensus among players on the other side will affect your negotiating strategy in other ways as well. First, since consensus cultures often focus on relationships rather than deals, the parties involved will often want to take substantial amounts of time to learn about you and forge a deeper relationship before talking about the deal. In consensus cultures, relationship building is critical not only to reaching an agreement but also to making it work. The lengthy timetable may be very frustrating to teams from decisive, top-down cultures; unfortunately, there's usually little they can do to speed up the process unless the other side is desperate for a deal—which generally means the consensus is already there—or the other side wants a deal and you're credibly engaged in parallel conversations with one of their serious rivals.

Second, since consensus processes often go hand-in-hand with near-inexhaustible demands for information, you should be prepared to provide it—in many different forms, in great detail, and repeatedly. Third, to the extent

SINCE CONSENSUS PROCESSES

often go hand-in-hand with near-inexhaustible demands for information, you should be prepared to provide it.

Xiaoping, who met in person about the project, both expressed their serious commitment to making the venture work, despite signals during preliminary negotiations that the deal would not succeed. As Roderick MacLeod recounts in his book, *China, Inc.: How to Do Business with the Chinese*, Hammer saw the project as the crowning achievement of his career: the largest-scale foreign investment in China in history. Deng, for his part, was anxious to show the world that his market reforms were transforming China into an economy ripe for investment. The two ordered their subordinates to reach an agreement, and the Oxy–CNCDC project became a highly visible test case. Yet because of bureaucratic conflicts, clashing expectations and interpretations, and escalating antagonisms, the formal negotiations dragged on for years, and Oxy ultimately pulled out after more than a decade of frustration.

Consensus. If top-down authority is at one end of the decision-making spectrum, then consensus is at the other. The consensus process can have many variations and is especially common in Asia. It sometimes requires agreement among the members of the other side's negotiating

that you can pinpoint the source of delay—usually the doubts of specific people or units—you can and should design your approach to help your proponents on the other side convert the doubters, giving them the data they need and supplying them with arguments they can use internally to address specific concerns.

Fourth, you may need to shift your focus away from the bargaining table and instead interact extensively and informally with the other side as it tries to reach a position internally. With some bitterness, U.S. trade negotiators dealing with seemingly immovable Japanese counterparts have puzzled, “Before the Japanese have reached a consensus, they can’t negotiate; after consensus is attained on the other side, there is nothing to negotiate.” Your objective is to get your interests, point of view, and plans incorporated into *their* consensus process. If you wait to do this until you are at the bargaining table, you will have to pry open their now-fixed position, reached before the players officially sit down to negotiate. As John Graham and Yoshihiro Sano, authors of *Doing Business with the New Japan*, explain, “In Japan, what goes on at the negotiation table is really a ritual approval of what has already been decided through numerous individual conversations in restaurants, bathhouses, and offices. In Japan, the negotiating table is not a place for changing minds. Persuasive appeals are not appropriate or effectual.” Often, breaking apart a previously settled mind-set requires near-collusion between you and their bargaining team, in which you make such a public fuss that their team returns home with a powerful argument to reopen the process.

And finally, you’ll need to adjust your own expectations—and your organization’s—of how long the deal will take. Failure to do so can put you into a bargaining vise, with your home management team pressuring you for quick results and the relaxed other side exploiting your own side’s impatience. Caught in the middle, you may feel as though your choices are limited: You can walk away (and undermine your effectiveness and waste resources), or you can make major concessions (and dilute the value of the deal). In general, if you think your side cannot handle a lengthy negotiation, you may be better off avoiding the negotiation altogether.

As frustrating as the need for consensus may be to those from fast-moving cultures, there can be offsetting advantages. A slow and painstaking negotiation process may lead to a decision that has more staying power. What’s more, actual implementation may occur more quickly than with a top-down agreement. People may also be more attached to the deal after investing so much in it. In one case, a U.S. firm negotiated for two years with a major Japanese company to create a large-scale joint venture under Japanese control. During this excruciatingly detailed process, the negotiations were halted several times due to what the Japanese team described as a break-

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.

down in its consensus process. Each time, however, the Japanese company resumed negotiations with a stronger consensus on the central role of the deal to its long-term global strategy.

When a European firm unexpectedly made a tender offer for the entire U.S. business, the Japanese company had to decide whether to drop out of the process or seek to acquire the whole firm. After years of negotiations and mentally integrating the U.S. operations into its long-term strategy during its exhaustive consensus process, the Japanese company had essentially fallen in love with its target. Rather than face the internal organizational costs of “losing,” it was willing to pay an extraordinarily high price for the U.S. firm—far more than it would have paid had it not been part of the frustratingly long consensus process.

In short, you should not be blindsided by the need for consensus. It may require more time, relationship building, and information than expected. Dealing with a consensus process effectively requires facilitating it while doing what you can—with real external deadlines and competitors—to speed it up, but also recognizing what you can’t do and setting realistic expectations.

Coalition Building. Decision processes don’t always come in pure forms such as top down or consensus. Sometimes, they’re less defined and don’t require the agreement of every player but rather the support of a sufficient subset of players—a “winning coalition” that can effectively pressure, sidestep, or override dissenters. At other times, a “blocking coalition” that has interests no one can ultimately overrule can bring a proposal to a halt. Pirelli’s fail-

ure to win over Continental Gummiwerke’s all-important management board and labor force in its failed takeover foray into Germany left a blocking entity in control. Stone Container in its negotiations with the Honduran president, and Armand Hammer in his attempts at an agreement with Deng Xiaoping both fell victim to ad-hoc blocking coalitions. Navigating such coalitions requires an understanding of the likely interests and options of the players who will be needed as allies in a winning coalition or who may seek to form a blocking entity.

Governance processes often drive these considerations, so taking a close look at the key players and how they work together can help you anticipate opportunities and obstacles as well as appropriately sequence your approach. For example, one foreign would-be acquirer of a German company first approached the supervisory board and obtained agreement in principle to go forward. Then, to the surprise of the board, the acquirer suddenly put the deal on hold. The acquirer had delayed the negotiations in order to approach the German company’s management board, lay out the terms it had proposed, and offer it total veto power over the transaction. In reality, the management board already had the ability to obstruct the deal, but the move felt like a concession because the board was not accustomed to being incorporated into the process in this way. Finally, after spending a great deal of time working out the strategy with the management board, the acquirer went back to the shareholders on the supervisory board to conclude what became a very successful transaction.

In closing, it’s worth noting that cultural allegiances are often not as simple as they appear. While national culture can tell you a lot about the person sitting across the table from you, every individual represents a number of cultures, each of which can affect negotiation style. Beyond her French citizenship, an ABB executive may well be from Alsace, have a Danish parent, feel staunchly European, have studied electrical engineering, and earned an MBA from the University of Chicago. Gender, ethnicity, and profession all play a role. But along with assessing the person across the table is figuring out the intricacies of the larger organization behind her. And to do that, you need to diligently map the governance and decision-making processes, which can take devilishly unexpected forms across borders. Then, you must design your strategy and tactics so that you’re reaching the right people, with the right arguments, in a way that allows you maximum impact on the process to yield a sustainable deal. 

FURTHER READING

For more information on basic etiquette in cross-cultural business situations, see Nan Leaptrott, *Rules of the Game: Global Business Protocol* (Thomson Executive Press, 1996); Richard R. Gesteland, *Cross-Cultural Business Behavior* (Handelshøjskolens Forlag, 1996); and Terri Morrison, Wayne A. Conaway, and George A. Borden, *Kiss, Bow, or Shake Hands?* (Adams Media Corporation, 1994).

For sources of information on deeper cultural differences, see Fons Trompenaars and Charles Hampden-Turner, *Riding the Waves of Culture* (McGraw-Hill, 1998). For information about these differences as they concern business negotiations, see Dean Allen Foster, *Bargaining Across Borders* (McGraw-Hill, 1992).

For good sources on negotiation-specific expectations, see Jeswald W. Salacuse, *Making Global Deals* (Times Business, 1991), and Jeanne M. Brett, *Negotiating Globally* (Jossey-Bass, 2001).

1. Razeen Sally, “A French Insurance Firm and ‘Fortress Germany’: The Case of AGF and AMB,” and the associated “Appendix,” Insead Cases 394-052-1 and 394-052-5, 1994.

2. Bryan Burroughs, “Gucci and Goliath,” *Vanity Fair*, July 1999.

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