Practical Solutions to Global Business Negotiations

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Abstract

Making deals globally is a fact of life in modern business. To successfully conduct deals abroad, executives need skills to negotiate with counterparts who have different backgrounds and experiences. *Practical Solutions to Global Business Negotiations* provides international executives with the savvy they need to negotiate with finesse and ease, no matter where they are. It offers valuable insights into the fine points of negotiating and guidelines on delicate issues that can influence a promising deal.

This book is an indispensable tool that provides know-how and expert strategies for striking favorable deals. The book emphasizes the importance of preparation and offers basic rules and checklists for staying on top in negotiations.

The frameworks introduced in *Practical Solutions to Global Business Negotiations* are relevant in conducting business negotiations anywhere in the world in any type of business. Executives will be prepared for the real-life situations they face in international deal making. Pinpointing the importance of developing a global mind-set, this book examines how to handle crucial cross-cultural differences in negotiating styles; deal with unfamiliar aspects of punctuality, manners, and gift giving; and emerge victorious as a successful international negotiator.

The book is divided into five parts. Part 1 deals with the global business negotiations framework. Part 2 focuses on the role of culture in negotiations and on choosing an appropriate negotiation style. The negotiation process is examined in Part 3 comprising prenegotiation planning, making the first move, concession trading, price negotiating, closing the deal, and understanding renegotiations. Part 4 is devoted to negotiation tools, such as communication skills and the role of power in negotiations. Part 5 covers miscellaneous topics such as negotiating on the internet, gender issues in global negotiations, and how small firms can effectively negotiate with large firms. In addition, the book contains seven cases. The first five cases highlight negotiation aspects of different regions of the world. The last two cases illustrate how negotiations take place in complex situations.

Drawing on their own experiences, the authors explain how to overcome problems such as the instability of the international marketplace and differences in culture, economy, ideology, law, and politics and
currencies that may arise when negotiating with businesses abroad. Clear and comprehensive, the authors outline the hallmarks of strengthening and maintaining a strong bargaining position for negotiating deals even under adverse conditions.

**Keywords**

Global negotiations, culture and negotiations, negotiation styles, negotiation process, renegotiations, negotiation on the Internet
Contents

Preface ................................................................. ix

PART 1 INTRODUCTION .......................................... 1
Chapter 1 Overview of Global Business Negotiations .......... 3

PART 2 NEGOTIATION OF ENVIRONMENT
AND SETTING ...................................................... 29
Chapter 2 Role of Culture in Cross-Border
Negotiations ....................................................... 31
Chapter 3 Selecting Your Negotiating Style .................. 53

PART 3 NEGOTIATION PROCESS ............................. 65
Chapter 4 Prenegotiations Planning .......................... 67
Chapter 5 Initiating Global Business Negotiations:
Making the First Move ........................................ 91
Chapter 6 Trading Concessions ............................... 107
Chapter 7 Price Negotiations ................................. 121
Chapter 8 Closing Business Negotiations .................. 143
Chapter 9 Undertaking Renegotiations ..................... 153

PART 4 NEGOTIATION TOOLS ............................... 169
Chapter 10 Communication Skills for
Effective Negotiations ......................................... 171
Chapter 11 Demystifying the Secrets of
Power Negotiations ........................................... 189

PART 5 MISCELLANEOUS TOPICS ......................... 201
Chapter 12 Negotiating on the Internet ..................... 203
Chapter 13  Overcoming the Gender Divide  
in Global Negotiation 213

Chapter 14  Strategies for Small Enterprises  
Negotiating With Large Firms 223

Case A: Chinese Negotiations 237
Case B: European Negotiations 241
Case C: Latin American Negotiations 245
Case D: Middle Eastern Negotiations 249
Case E: Asian Negotiations 251
Case F: The Renault-Nissan Alliance Negotiations 255
Case G: Factory Closure Negotiations 279

Notes 287
References 293
Index 313
Preface

Today’s globalization requires professionals to deal with their counterparts in countries with different economic, cultural, legal, and political environments. You may need to resolve a dispute with a supplier, finalize a counterproposal for a state-owned enterprise, or lead a multicultural team. Thus in a globalized market, few subjects are as critical as negotiating across cultural boundaries. When negotiators are from diverse cultures, they often rely on quite different assumptions about social interactions, economic interests, and political realities. Consequently, culturally sensitive negotiating skills are necessary for managing in an international setting.

*Practical Solutions to Global Business Negotiations* has been prepared for all those who negotiate globally: managers, lawyers, government officials, and diplomats. The book provides an insightful, readable, highly organized tour de force of both the conceptual and practical essentials of international business negotiation.

Negotiation is a lifelong activity. In business, you can do much better by negotiating successfully. Those not skilled in negotiation will get less than they deserve, perhaps significantly less. Surprisingly, it is often easier to sharpen your negotiating skills by simply trying. To do this, you must acquire proven negotiation strategies and tactics as well as the latest techniques of dealing with the challenges and opportunities of today’s complex global alliances and quickly forming partnerships. At the same time, you must know how to navigate across national, organizational, and professional cultures at the negotiating table.

The book provides a clear framework to guide global negotiators around diverse cultural boundaries to close deals, to create value, to resolve disputes, and to reach lasting agreements in a constantly changing competitive context. In other words, this book will help managers and professionals acquire knowledge and develop indispensable skills in today’s global business environment.

The book emphasizes the hardheaded sense of reality at its core. It makes negotiators feel how it will likely be at the international negotiating
It tells you how to avoid mistakes and how to optimize your goals. It helps you strengthen the skills that are keys to success in conducting business in a multicultural environment. The strength of your agreements and the development of lasting relationships can be the difference between success and failure. Poor agreements with overseas companies result in frequent and endless disputes affecting the profitability of the outcome. Mutually beneficial agreements help you reach and exceed your objectives and give the other party greater satisfaction at the same time. This is true whether you are (a) determining the price and terms of the deal, (b) closing with a key customer, (c) persuading others to work with and not against you, (d) setting or meeting budgets, (e) finalizing and managing complex contracts, (f) working on a project with someone important to you, or (g) breaking or avoiding a serious impasse.

While brief, our acknowledgments express our deep gratitude to all who have helped us to design and shape this book over the last several years. Many concepts are grounded on the work of others and are intended as a tribute to those found in the bibliography—a dedicated group of authors recognized for their research on cross-national negotiations. Some of them may agree or disagree with this book, and that reaction is to be expected.

Closer to home, we wish to acknowledge the support of colleagues Eric Willumsen and John Santantoniou at the International University in Geneva and Chris Earley at the University of Connecticut. We are thankful to our students at the International University in Geneva and at the University of Connecticut who read drafts and provided excellent feedback. The staff at the International University in Geneva and the University of Connecticut—particularly Shayna Mesko, student assistant in the International Programs office—have been extraordinarily gracious in supporting the project and providing help in numerous ways.

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PART 1

Introduction
CHAPTER 1
Overview of Global Business Negotiations

In business you don't get what you deserve, you get what you negotiate.
—Chester L. Karras

Business requires undertaking a variety of transactions. These transactions involve negotiations with one or more parties on their mutual roles and obligations. Thus, negotiation is defined as a process by which two or more parties reach agreement on matters of common interest. All negotiations involve parties (i.e., persons with a common interest to deal with one another), issues (i.e., one or more matters to be resolved), alternatives (i.e., choices available to negotiators for each issue to be resolved), positions (i.e., defined response of the negotiator on a particular issue: what you want and why you want it), and interest (i.e., a negotiator’s underlying needs). These should be identified and stated clearly at the outset.

In the post–World War II period, one of the most important developments has been the internationalization of business. Today companies of all sizes increasingly compete in global markets to seek growth and to maintain their competitive edge. This forces managers to negotiate business deals in multicultural environments.

While negotiations are difficult in any business setting, they are especially so in global business because of (a) cultural differences between parties involved, (b) business environments in which parties operate differently, and (c) gender issues in global business negotiations. For these reasons, business negotiations across borders can be problematic and sometimes require an extraordinary effort. Proper training can go a long way in preparing managers for negotiations across national borders. This book provides know-how and expertise for deal making in multicultural environments.
GLOBAL BUSINESS NEGOTIATIONS

The book is meant for those individuals who must negotiate deals, resolve disputes, or make decisions outside their home markets. Often managers take international negotiations for granted. They assume that, if correct policies are followed, negotiations can be carried out without any problems. Experience shows, however, that negotiations across national boundaries are difficult and require a painstaking process. Even with favorable policies and institutions, negotiations in a foreign environment may fail because individuals deal with people from a different cultural background within the context of a different legal system and different business practices. When negotiators belong to the same nations, their deal making takes place within the same cultural and institutional setup. However, when negotiators belong to different cultures, they have different approaches and assumptions relative to social interactions, economic interests, legal requirements, and political realities.

This book provides business executives, lawyers, government officials, and students of international business with practical insights into international business negotiations. For those who have no previous training in negotiations, this book introduces them to the fundamental concepts of global deal making. For those with formal training in negotiation, this book builds on what they already know about negotiation in the global environment.

Negotiation is interdependent: what one person does affects another party. It is imperative, therefore, that a negotiator, in addition to perfecting his or her own negotiating skills, focus on how to interact, persuade, and communicate with the other party. A successful negotiator works with others to achieve his or her own objectives. Some people negotiate well, while others do not. Successful negotiators are not born; rather, they have taken the pains to develop negotiating skills through training and experience.

Negotiation Architecture

The architecture of global negotiations consists of three aspects: negotiation environment, negotiation setting, and negotiation process. The negotiation environment refers to the business climate that surrounds the negotiations and is beyond the control of negotiators. The negotiation setting refers to such aspects as the relative power of the negotiators and
Initiating global business negotiations:
Making the first move

Negotiating price

Closing business negotiations

Undertaking renegotiations

Levels of conflict underlying potential negotiations
Relationship between negotiators before and during negotiations
 Desired outcome of negotiations
Impact of immediate stakeholders
Relative bargaining power of negotiators and nature of dependence
Style of negotiations

Instability and change
Foreign government control and bureaucracy
Currency fluctuations and foreign exchange
Political pluralism
Legal pluralism
External stakeholders
Ideological differences
Cultural differences

Figure 1.1. Negotiation architecture.
the nature of their interdependence. Usually, negotiators have influence and some measure of control over the negotiation setting. The negotiating process is made up of events and interactions that take place between parties to reach an agreement. Included in the process are the verbal and nonverbal communication among parties, the display of bargaining strategies, and the endeavors to strike a deal. Figure 1.1 depicts the three aspects of negotiation architecture.

**Negotiation Environment**

The following are the components of the negotiation environment: legal pluralism, political pluralism, currency fluctuations and foreign exchange, foreign government control and bureaucracy, instability and change, ideological differences, cultural differences, and external stakeholders.2

**Legal Pluralism**

Multinational enterprise in its global negotiations must cope with widely different laws. A U.S. corporation not only must consider U.S. laws wherever it negotiates but also must be responsive to the laws of the negotiating partner’s country. For example, without requiring proof that certain market practices have adversely affected competition, U.S. law, nevertheless, makes them violations. These practices include horizontal price fixing among competitors, market division by agreement among competitors, and price discrimination. Even though such practices might be common in a foreign country, U.S. corporations cannot engage in them. Simultaneously, local laws must be adhered to even if they forbid practices allowed in the United States. For example, in Europe, a clear-cut distinction is made between agencies and distributorships. Agents are deemed auxiliaries of their principal; distributorships are independent enterprises. Exclusive distributorships are considered restrictive in European Union (EU) countries. The foreign marketer must be careful in making distribution negotiations in, say, France, so as not to violate the regulation concerning distributorships’ contracts.

Negotiators should be fully briefed about relevant legal aspects of the countries involved before coming to agreement. This will ensure that the final agreement does not contain any provision that cannot be
implemented because it is legally prohibited. The best source for such a briefing is a law firm that has in-house capability of legal matters of the counterpart’s country.

Political Pluralism

A thorough review of the political environment of the party’s country with whom negotiation is planned must precede the negotiation process. An agreement may be negotiated that is legal in the countries involved and yet may not be politically prudent to implement. There is no reason to spend effort in negotiating such a deal. Consider the following examples.

A few years ago, Air India, a state-owned company and India’s flagship air carrier, had to upgrade its fleet. After several months of debating proposals made by Boeing and European airline consortium Airbus, Air India placed the $7 billion order with Boeing. Around this time, U.S. diplomats had been complaining that, while Indian Internet technology service exports had surged, most of India’s manufacturing imports continued to come from non-U.S. sources. Some Indians feared a U.S. protectionist backlash if the airline order was placed with Airbus.

Washington had repeatedly called on New Delhi to ensure a “level playing field” for American industry. According to a French official, Boeing’s selection was politically driven, with factors other than commercial ones swinging the order in Boeing’s favor—although Indian officials denied this.3

As another example, the federal government officially discourages cigarette smoking in the United States. But if people in other countries are going to smoke, why shouldn’t they puff away on American tobacco?

Armed with this logic, the Bush administration pressured Indonesia, South Korea, and Taiwan to dismantle their government-sanctioned tobacco monopolies. This opened lucrative markets and created such growth for U.S. cigarette makers that skyrocketing Asian sales helped offset the decline at home.

However, Thailand, with a government tobacco monopoly of its own, has been fighting U.S. pressure to open up, and U.S. tobacco companies approached the Bush administration to take up trade sanctions against the Thai authorities. That raises many questions about U.S. trade policy, including these: Should Washington use its muscle to promote a product
overseas that it acknowledges is deadly? Are trade disputes to be decided by lawyers and bureaucrats on the basis of commercial regulations, or should health and safety experts get into the act? Should the United States use trade policy to make the world healthier, just as it does to save whales, punish Cuba, or promote human rights? The United States should first examine these questions before deciding to negotiate with Thai authorities to open their cigarette market.

A thorough review of a country’s political environment must precede the negotiation exercise. A rich foreign market may not warrant entry if the political environment is characterized by instability and uncertainty.

A country’s political perspectives can be analyzed in three ways: (a) by visiting the country and meeting credible people, (b) by hiring a consultant to prepare a report on the country, and (c) by examining political risk analysis worked out by such firms as the Economist Intelligence Unit (EIU), a New York–based subsidiary of the Economist Group, London, or the Bank of America’s Country Risk Monitor or BERI S. A.’s Business Risk Service.

Currency Fluctuations and Foreign Exchange

A global negotiation may involve financial transfers across national lines to close deals. Financial transfers from one country to another are made through the foreign exchange medium. Foreign exchange is the monetary mechanism by which transactions involving two or more currencies take place. It is the exchange of one country’s money for another country’s money.

Transacting foreign exchange deals presents two problems. First, each country has its own methods and procedures for effecting foreign exchanges—usually developed by its central bank. The transactions themselves, however, take place through the banking system. Thus, the methods of foreign exchange and the procedures of the central bank and commercial banking constraints must be thoroughly understood and followed to complete a foreign exchange transaction.

A second problem involves the fluctuation of rates of exchange that occurs in response to changes in supply and demand of different currencies. For example, in 1992, a U.S. dollar could be exchanged for about three Swiss francs. In 2001, this rate of exchange went down to as low as 1.69 Swiss francs for a U.S. dollar, and in 2011, the U.S. dollar further declined such that a dollar fetched 0.89 Swiss francs. Thus, a U.S. businessperson
interested in Swiss currency must pay much more today than in the 1990s. In fact, the rate of exchange between two countries can fluctuate from day to day. This produces a great deal of uncertainty, as a businessperson cannot know the exact value of foreign obligations and claims.

Assume a Mexican representative negotiates to buy a machine from a U.S. manufacturer. The machine price is negotiated at 1.2 million in U.S. dollars, or 7.2 million Mexican pesos. The machine is custom designed and will be delivered to the Mexican firm in about 6 months. The U.S. company is willing to accept Mexican pesos for the machine, but currency values fluctuate from day to day. If the Mexican peso goes down by the time the machine is delivered, the 7.2 million pesos the U.S. company would receive will amount to much less than the $1.2 million it was anticipating. To prevent such a situation, the U.S. firm must negotiate a higher price if the importer wants to pay in pesos. The company must do so because historically the Mexican peso has been unstable and declining in value relative to the U.S. dollar. Before negotiating the price, the U.S. firm should carefully analyze how much the Mexican peso might depreciate in the next 6 months.

Foreign Government Controls and Bureaucracy

An interesting development of the post–World War II period has been the increased presence of government in a wide spectrum of social and economic affairs it previously ignored. In the United States, concern for the poor, the aged, minorities, consumers’ rights, and the environment has spurred government response and the adoption of a variety of legislative measures. In many foreign countries, such concerns have led governments to take over businesses to be run as public enterprises. Sympathies for public-sector enterprises, regardless of whether they are successful businesses, have rendered private corporations suspect and undesirable in many countries. Also, public-sector enterprises are not limited to developing countries. Great Britain and France had many government corporations, from airlines to broadcasting companies to banks and steel mills. Thus, in many nations, negotiations may take place with a government-owned company, where profit motive may not be as relevant as it is for a private company.

Some nations look on foreign investment with suspicion. This is true of developed and developing countries. In Japan, it is extremely difficult
for a foreign business to establish itself without first generating a trusting relationship that enables it to gain entry through a joint venture. Developing countries are usually afraid of domination and exploitation by foreign businesses. In response to national attitudes, these nations legislate a variety of controls to prescribe the role of foreign investment in their economies. Therefore, a company should review a host country's regulations and identify underlying attitudes and motivations before deciding to negotiate there. For advice on legal matters, the company should contact a law firm that may know an expert in the host country. Furthermore, the company should examine the political risk analysis of firms such as the EIU, mentioned previously.

Every country has its own unique administrative scheme. The scheme emerges from such factors as experience, culture, the system of reward and punishment, availability of qualified administrators, and leadership style. In addition, the availability of modern means of transportation and communication helps streamline government administration. Businesses often complain about the bureaucracy in developed countries. But if they were to compare administration in developed nations with developing nations, they would be pleasantly surprised to learn that government in the developed countries is far more efficient than elsewhere. Such hindrances, in addition to the usual red tape, make business dealings uncomfortable and unpleasant. Although a company would probably not bypass an overseas opportunity solely because of this factor, knowledge about the inefficiency of administrative machinery might warn its managers to lengthen the negotiation schedules—and be mentally prepared to face bureaucratic hassles.

The government of a country sometimes imposes market control to prevent foreign companies from competing in certain markets. For example, until recently, Japan prohibited foreign companies from selling sophisticated communications equipment to the Japanese government. Thus, AT&T, Hewlett-Packard, and Cisco could do little business with Japan.

Obviously, in nations with an ongoing bias against homegrown private businesses, a foreign company cannot expect a cordial welcome. Therefore, the foreign company must contend with problems that arise because it is a private business as well as a foreign one. Sound business intelligence and familiarity with the industrial policy of the government and related legislative acts and decrees should clarify the role of the private sector in any given economy. This type of information should
be fully absorbed before proceeding to negotiate. The same sources of information mentioned previously for seeking insights into a country’s political perspectives can be helpful in this regard.

Instability and Change

Many countries have frequent changes of government. Therefore, a foreign business may find that, by the time it is ready to implement an agreement, the government with whom the initial agreement was negotiated has changed to a government that is less sympathetic to the predecessor’s commitment. Consequently, before agreements are made, international negotiators must examine whether the current government is likely to remain in office in the near future. In a democratic situation, the incumbent party’s strength or the alternative outcomes of the next election can be weighted to assess the likelihood of change. To learn about the political stability of a country, a company should contact someone who has been doing business in the host country for some time. A company may also gain useful insights from its government agencies. For example, in the United States, a company may contact the International Trade Administration (ITA) in its area for advice; the ITA may even put the company in touch with a representative in the host country.

More than anything else, foreign companies dislike host countries’ frequent policy changes. Policy changes may occur even without a change in government. Therefore, foreign businesses must analyze the mechanism of government policy changes. Information on the autonomy of legislatures and the study of the procedures followed for seeking constitutional changes can be crucial for the global negotiator.

China provides an example of policy change. A few years ago, China ordered all direct-sales operations to cease immediately. Alarmed by a rise in pyramid schemes by some direct sellers and uneasy about big sales meetings held by direct sellers, Beijing gave all companies that held direct-selling licensing 6 months to convert to retail outlets or shut down altogether. The move threatened Avon’s China sales of about $75 million a year, and put Avon’s, Amway’s, and Mary Kay, Inc.’s combined China investment of roughly $180 million at risk. It also created problems for Sara Lee Corporation and Tupperware Corporation, which had recently launched direct-sales efforts in China. (China withdrew the order after a little pressure from
Washington and because more than 20 million Chinese were involved in
direct sales, with more turning to the businesses as unemployment rose.)

Dell’s experience in Brazil is noteworthy where it had decided to
establish its first manufacturing plant in Latin America.

In early 1998, Keith Maxwell, Dell’s Senior Vice President
for Worldwide Operations, led the site selection team that visited
five different states in Brazil in order to decide where Dell should
locate its manufacturing plant. In June 1998, after the team con-
firmed its initial findings and concluded its negotiations, Maxwell
made the final recommendation to Michael Dell: the plant should
be built in Brazil’s southernmost state, Rio Grande do Sul. By
mid-March 1999, Dell had already signed agreements with the
local state government on the terms of the investment, the process
of hiring local personnel to manage the plant had begun, and con-
struction on the plant itself was scheduled to start soon.

Suddenly, however, the political climate in Rio Grande do Sul
changed. A new governor, Olivio Dutra of the Partido dos Trabalha-
dores (Worker’s Party), took office in Rio Grande do Sul on January
1, 1999, and appeared likely to rescind the entire agreement. This
was a setback, and Maxwell had to decide on a course of action to
recommend: (1) leave Brazil entirely; (2) move the plant to another
state; or (3) try to renegotiate with Governor Dutra.6

Sovereign nations like to assert their authority over foreign business
through various sanctions. Such sanctions are regular and evolution-
ary and, therefore, predictable. An example is the increase in taxes over
foreign operations. Many developing countries impose restrictions on
foreign business to protect their independence. (Economic domination
is often perceived as leading to political subservience.) These countries
protect their political freedom and want to maintain it at all costs, even
when it means proceeding at a slow economic pace and without the help
of foreign business. Thus, the political sovereignty problem exists mainly
in developing countries.

Industrialized nations, whose political sovereignty has been secure
for a long time, require a more open policy for the economic realities of
today’s world. Today, governments are expected simultaneously to curb
unemployment, limit inflation, redistribute income, build up backward regions, deliver health services, and avoid abusing the environment. These wide-ranging objectives make developed countries seek foreign technology, use foreign capital and foreign raw materials, and sell their specialties in foreign markets. The net result is that these countries have found themselves exchanging guarantees for mutual access to one another’s economies. In brief, among developed countries, multinationalism of business is politically acceptable and economically desirable, which is not always true in developing countries.

Any review of a country’s political system and its impact on foreign business must remain free of stereotyped notions. Political philosophies change over time. Thus, what a government or party stood for in 2010 may not hold true in 2020. Both current and emerging political perspectives need to be analyzed before negotiations take place in a country.

A basic management reality in today’s economic world is that businesses operate in a highly interdependent global economy and that the developing countries are significant factors in the international business area. They are the buyers, suppliers, competitors, and capital users. To negotiate successfully in developing countries, a company must recognize the magnitude and significance of these roles.

Cultural Differences

Doing business across national boundaries requires interaction with people nurtured in different cultural environments. Values that are important to one group of people may mean little to another. Some typical attitudes and perceptions of one nation may be strikingly different from those of other countries. These cultural differences deeply affect negotiation behavior. International negotiators, therefore, need to be familiar with the cultural traits of the country with which they want to negotiate. International business literature is full of instances in which stereotyped notions of countries’ cultures have led to insurmountable problems.

The effect of culture on international business ventures is multifaceted. The factoring of cultural differences into the negotiating process to enhance the likelihood of success has long been a critical issue in overseas operations. With the globalization of worldwide commerce, cultural forces have taken on additional importance. Naïveté and blundering
Concerning culture can lead to expensive mistakes. Although some cultural differences are instantly obvious, others are subtle and can surface in surprising ways.

Consider the following example. It was the middle of October; a marketing executive from the United States was flying to Saudi Arabia to finalize a contract with a local company to supply hospital furnishings. The next day he met the Saudi contacts and wondered whether they would sign the deal within two or three days, since he had to report to his board the following Monday. One of the Saudi executives responded simply, “Insha Allah,” which means “if God is willing.” The American felt completely lost. He found the carefree response of the Saudi insulting and unbusinesslike. He believed he had made a concerted effort by coming all the way to Saudi Arabia so they could question any matter requiring clarification before signing the contract. He thought the Saudi executive was treating a deal worth more than $100 million as if it meant nothing.

During the next meeting, the American was determined to put the matter in stronger terms, emphasizing the importance of his board’s meeting. But the Saudis again ignored signing the contract. “They were friendly, appeared happy and calm, but wouldn’t sign on the dotted line,” the American later explained. Finally, on orders from the president of his company, he returned home without the contract.

Why did the Saudi executive not sign the sales contract? After all, they had agreed to all the terms and conditions during their meeting in New York. But in Riyadh, they did not even care to review it, let alone sign it.

Unfortunately, the U.S. executive had arrived at the wrong time. It was the time of Ramadan, holy month, when most Muslims fast. During this time, everything slows down, particularly business. In Western societies, religion is, for most people, only one aspect of life, and business goes on as usual most of the time. In Islamic countries, religion is a total way of life for the majority of people. It affects every facet of living. Thus, no matter how important a business deal may be, it will probably not be conducted during the holy month. This U.S. executive was not aware of Muslim culture and its values, and, unfortunately, he scheduled a business meeting for the one time of the year when business was not likely to be conducted.

Successful U.S. negotiators advise that in Asian cultures, a low-key, nonadversarial, win-win negotiating style works better than a cut-and-dried businesslike attitude. A negotiator should listen closely, focus on
mutual interests rather than petty differences, and nurture long-term relationships.

Four aspects of culture are especially important in negotiating well. They are spoken language, body language, attitude toward time, and attitude toward contracts. For example, fine shades of meaning can get lost in the translation, especially in Japan, where the same spoken word can have three different meanings and where blunt refusals are considered impolite. When the Japanese use a word, it does not mean the same thing to an American or a European. When the Japanese say something is “difficult” or that “it will take some study,” they mean “no.” Nor does everyone speak the same body language. Americans may not know that when Japanese audibly suck air through their teeth, they feel pressured. And while a hearty handshake may convey sincerity in New York or London, it makes Asians uncomfortable. Even colors have unexpected significance. For example, a red or gold hat in China signifies joy and prosperity, while white is considered calamity.

Different ideas about punctuality can also confound negotiations. In parts of sub-Saharan Africa, negotiators might decide to defer action until next year. But Americans get upset if they cannot close a deal in time to catch a four o’clock flight. Differing attitudes toward contracts can cause even more confusion. For instance, the custom of naniwabushi allows the Japanese to request a change in a contract if the terms become onerous or unfair, which is not acceptable in Western cultures. A business contract in Japan is like a wedding vow: It means more in spirit than in substance. When a husband disagrees with his wife, he does not go back to the marriage vow to settle the argument. If the relationship is not working, rereading the contract will not help. The Japanese are insulted when an executive brings a lawyer to negotiations.

Ideological Differences

There are always ideological differences between nations, which influence citizens’ behaviors. Ideologies attributed to traditional societies imply that they are compulsory in their force, sacred in their tone, and stable in their timeliness. They call for fatalistic acceptance of the world as it is, respect for those in authority, and submergence of the individual in collectivity. In contrast to this, the ideologies of Western societies can be described as
stressing acquisitive activities, an aggressive attitude toward economic and social change, and a clear trend toward a higher degree of industrialization.

For example, many feel that having a contract with the Chinese does not have the same meaning because, when you get right down to it, the Chinese do not view contracts as binding. Even if a contract was negotiated in good faith with Mr. Chu, when Mr. Lin comes in to replace Mr. Chu, he might say, “Well, you signed the contract with Mr. Chu, not me. So to me this contract is void. So what you can do is sue the Chinese government.” While keeping their ideological differences intact, the traditional societies want to be economically absorbed in Western ways, having a strong emphasis on specificity, universalism, and achievement. Thus, if matters are handled in a delicate fashion, problems can be averted.

Negotiators should be familiar with and respect one another’s values and ideologies. For example, a fatalistic belief may lead an Asian negotiator to choose an auspicious time to meet the other party. The other party should be duly sensitive to accommodate the ideological demands of his or her counterpart.

External Stakeholders

The term external stakeholders refers to different people and organizations that have a stake in the outcome of a negotiation. These can be stockholders, employees, customers, labor unions, business groups (e.g., chambers of commerce), industry associations, competitors, and others. Stockholders welcome the negotiation agreement when it increases the financial performance of the company. Employees support the negotiation that results in improved gains (financial and in-kind) for them. Customers favor the negotiation that enables them to have quality products at a lower price. Thus, if a foreign company that is likely to provide good value to consumers is negotiating to enter a country, the consumers will be excited about it. However, the industry groups will oppose such negotiation to discourage competition from the foreign company.

Different stakeholders have different agendas to preserve. They support or oppose negotiation with a foreign enterprise, depending on how it will affect them. In conducting negotiation, therefore, a company must examine the likely reaction of different stakeholders.
Negotiation Setting

The negotiation setting refers to factors that surround the negotiation process and over which the negotiators have some control. The following are the dimensions of negotiation setting: the relative bargaining power of the negotiators and the nature of their dependence on one another, the levels of conflict underlying potential negotiation, the relationship between negotiators before and during negotiations, the desired outcome of negotiations, impact of immediate stakeholders, and style of negotiations.

Relative Bargaining Power of Negotiators and Nature of Dependence

An important requisite of successful negotiations is the mutual dependence of the parties on one another. Without such interdependence, negotiations do not take place. The degree of dependence determines the relative bargaining power of each side. The style and strategies a negotiator adopts depend on his or her bargaining power. A company with greater bargaining power is likely to be more aggressive than one with weaker bargaining power. A company with other equally attractive alternatives may apply a "take it or leave it" posture, while a company with no other choice to fall back on may adopt a more submissive stance.

Consider a small software firm in a small niche market with tremendous financial problems negotiating with IBM. If the IBM deal fails, the small firm may go out of business. Its survival depends on successfully forming an alliance with IBM. However, IBM, as a matter of strategy, is acquiring small software companies to strengthen its position in different target markets. The bargaining power of the small firm is limited compared with IBM, but it does have an interest in the alliance because the firm has a unique position in a lucrative market, which motivates IBM to negotiate. Despite its small size, the firm should confidently negotiate based on this strength.

Levels of Conflict Underlying Potential Negotiations

Every negotiation situation has a few key points. When both parties agree on essential issues, the negotiation is concluded with a supportive
attitude. However, differences over key points may cause the potential negotiation to conclude in a hostile environment.

Where the goals of two parties depend on each other in such a way that the gains of one party have a positive impact on the gains of the other party, the negotiations are concluded in a win-win situation (also called a non-zero-sum game, or integrative bargaining). If, however, the negotiation involves a win-lose situation (i.e., the gains of one side result in losses for the other party), the negotiation will proceed in a hostile setting.

Suppose a U.S. women's fashion company is interested in manufacturing some of its goods in a developing country to take advantage of low wages. The developing country, on the other hand, is interested in increasing employment. This presents a win-win situation, and the negotiation will take place in a friendly setting. Assume a European company is negotiating a joint venture in a developing country. The company desires majority equity control in the joint venture, while the government of the developing country is opposed to it (i.e., the government wants the foreign company to have a minority interest in the joint venture). This case represents a win-lose situation (a zero-sum game or distributive bargaining) since the gains of one party come at the cost of the other.

Relationship Between Negotiators Before and During Negotiations

The history of a positive working relationship between negotiating parties influences future negotiations. When previous negotiations established a win-win situation, both sides undertake current negotiation with a positive attitude, hoping to negotiate another win-win agreement. However, when the previous experience was disappointing, the current negotiation setting may begin with a pessimistic attitude.

Even during the current negotiation, what happens in the first session sets the stage for the next session and so on. Usually, a negotiation involves several sessions over time. When, in the first session, relationships are less than cordial, future sessions may proceed in a negative atmosphere. Therefore, a company should adopt a positive, friendly, and supportive posture in the initial session or sessions. Every effort should be made to avoid conflicting issues. For example, a German company negotiating with the Japanese need not start with the sad experiences of another German company's dealings with a different Japanese company.
Desired Outcome of Negotiations

The outcomes of global business negotiation can be tangible and intangible. Examples of tangible outcomes are profit sharing, technology transfer, royalty sales, protection of intellectual property, equity ownership, and other outcomes whose values can be measured in concrete terms. Intangible outcomes include the goodwill generated between two sides in a negotiation, the willingness to offer concessions to enhance the relationship between parties (and the outcome through understanding), and give-and-take. The tangible/intangible outcomes can be realized in the short term or long term.

One basic precept of global business negotiation is to compromise for tangible results to happen in the long run. Business deals are long-term phenomena. Even when a company is interested in negotiating with a foreign company only for an ad hoc deal, the importance of a long-term relationship and its positive impact should be remembered. The situation may change in the future such that the company a person negotiated with in the past on a minor project may not be a major player in current negotiations. Relationship is an important criterion for conducting successful negotiations, and it takes time to establish a relationship.

Often developing countries want multinational companies to transfer technology to that country. Technology is an important and unique company asset, which it does not want to fall into the wrong hands. In the short term, negotiators from developing countries should be willing to live with intangible benefits from the current negotiation, in the interest of realizing the tangible gain of technology transfer in the long run. Similarly, a multinational corporation might initially accept a minority position in a developing country if the latter is willing to reconsider the equity ownership question a few years later. When goodwill is created, the government may approach the company’s desire to have equity control in the venture with an open mind.

While relationship building is important for successfully negotiating anywhere in the world, it is more so in Asian nations. Japanese companies, in particular, want to strengthen their relationships with overseas companies before negotiating business deals. Thus, months and years of promoting goodwill and harmony are vital for fruitful negotiations.
Impact of Immediate Stakeholders

The immediate stakeholders in global business negotiation refer to employees, managers, and members of the board of directors. Their experience in global negotiations, their cultural perspectives, and their individual stakes in negotiation outcomes have a bearing on the negotiating process.

Long-term experience in negotiating deals with Japanese, for example, teaches a U.S. manager that the Japanese do not mean yes when they say “OK” to some point. Experience also teaches about the rituals of a culture and the meaning of gestures, jokes, gifts, and so on. Such experience comes in handy in planning negotiation tactics and strategies. Likewise, the cultural background of negotiators influences the outcomes. In Russia and in Eastern European countries, Western managers’ emphasis on profits is not easy to grasp. In many cultures, people like to deal with their equals. Thus, a lower-ranking Western manager may have a problem negotiating with the CEO of an Indian company. The ranks of the people involved in negotiation are a consideration in the successful outcome. Other cultural traits, such as outside interests, emphasis on time, and so on, also impact negotiations.

Different stakeholders have different stakes in the negotiation. Labor in a developed country does not want global negotiation to transfer jobs overseas or to use pressure to institute lower wages. Managers do not like to negotiate an agreement that counters their personal stakes, such as financial gain, career advancement, ego, prestige, personal power, and economic security. Members of a board of directors may be interested in an agreement for prestige’s sake rather than any financial gain. This means they might compromise on an agreement in terms of profit as long as it ensures the prestige they are seeking.

Style of Negotiations

Every manager has certain traits that characterize his or her way of undertaking negotiation. Some people adopt an aggressive posture and hope to get what they want by making others afraid of them. Some people are low key and avoid confrontation, hoping their counterparts in negotiations are rational and friendly. Different styles have their merits and demerits.
Regarding negotiations, the best style is the one that satisfies the needs of both parties. In other words, a negotiator should embrace a style that helps in a win-win outcome, that is, adopt a style that makes the other party feel comfortable and helps in minimizing any conflict.

**Negotiation Process**

Although companies of all sizes run into negotiation problems, managers of small- and medium-sized firms often lack the business negotiation skills to make deals in the international marketplace. These companies may also need negotiation skills for discussions with importers or agents when the firm is exporting its products. Such skills are also necessary when the firm is exploring joint-venture possibilities abroad or purchasing raw materials from foreign suppliers. As mentioned previously, negotiating with business partners located in other countries is more difficult than dealing with local companies when the customs and language of the counterpart are different from those at home. Such cultural factors add to the complexities of the transaction.

Assume the export manager of a small manufacturing company specializing in wooden kitchen cabinets wants to find an agent for the firm’s products in a selected target market and has scheduled a visit there for this purpose. The manager has never been to the country and is not familiar with the business practices or the cultural aspects. The manager realizes the need for a better understanding of how to conduct business negotiations in the market before meeting with several potential agents.

The negotiation process introduced in this book (see Figure 1.1) can be helpful to managers who do not have any formal training on the subject. The negotiation begins with *prenegotiation planning* and ends with *renegotiation*, if necessary. In between are stages of *initiating negotiation*, *trading concessions*, *negotiating price*, and *closing the deal*.

After completing prenegotiation planning, negotiation begins with *contention*; that is, each party starts from a different point concerning what he or she hopes to achieve through negotiation. In the previous example, when the export manager meets the potential agents in the target market, he or she has certain interests to pursue in the business dealings that may not necessarily coincide with those of the counterpart. The manager may want the agent to work for only a minimal commission...
so the extra profits can be reinvested in the company to expand and modernize production. Furthermore, the manager may wish to sign up several other agents in the same country to increase the possibility of export sales; he or she may also want to limit the agency agreement to a short period to test the market. The potential agent, on the other hand, may demand a higher percentage of sales than the commission offers, may insist on exclusivity within the country concerned, and may call for a contract of several years instead of a short trial period. In this situation, the exporter needs to know how to proceed in the talks to ensure that most of the firm’s interests are covered in the final agreement.

The terms clarification, comprehension, credibility, and creating value are basic phrases in the negotiating process between the initial starting position and the point where both parties develop a common perspective. By applying each concept in sequence, one can follow a logical progression during the negotiation.

Clarification and comprehension are the first steps away from confrontation. In the previous case, the exporter and the potential agent should clarify their views and seek the understanding of the other party about matters of particular concern. For instance, the parties may learn that it is important for the exporter to obtain a low commission rate and for the agent to have exclusivity in the territory concerned.

The next stages in business negotiation concern the concepts of credibility and creating value, that is, the attitudes that develop as both parties discuss their requirements and the reasons behind them. This may mean that the agent accepts as credible the exporter’s need to reinvest a large portion of profits to keep the company competitive. The exporter, on the other side, has confidence that the agent will put maximum efforts into promoting the product, thus assuring the exporter that a long-term contract is not disadvantageous. As the negotiation proceeds, the two gradually reach a convergence of views on a number of points under discussion.

Following this is the stage of concession, counterproposals, and commitment. Final matters on which the two parties have not already agreed are settled through compromises on both sides.

The final stage is conclusion; that is, the agreement between the two parties. For the exporter, this means a signed agreement with a new agent, incorporating at least some of the exporter’s primary concerns (such as a low commission on sales) and some of the agent’s main considerations (for instance, a two-year contract). The negotiation process, however, is
not complete because circumstances may change, particularly during the implementation phase, that require renegotiation, a possibility both parties should keep in mind.

**Negotiation Infrastructure**

Before proceeding to negotiate, it is desirable to put the negotiation infrastructure in place. It makes negotiators’ lives easier and makes their jobs more rewarding. The infrastructure consists of assessing the current status of the company and establishing the BATNA, or best alternative to a negotiated agreement.

**Assessing Current Status**

The current status can be assessed using the strengths, weaknesses, opportunities, and threats (SWOT) analysis, a technique often used to assess business management situations. Although this is a well-known business management tool, insufficient attention has been given to linking the results of a SWOT analysis with the development of a business negotiation strategy.

The SWOT method as used for business management purposes consists, in simple terms, of looking at a firm’s production and marketing goals and assessing the company’s operations and management policies and practices in the light of these goals. The framework for this analysis is four key words: strengths, weaknesses, opportunities, and threats. All aspects of the company’s activities are reviewed and classified under one of these terms.

This analysis is taken a step further when the SWOT results are applied to a negotiating plan. The strengths, weaknesses, opportunities, and threats identified are used to plan the negotiating strategy and tactics. Applying the SWOT technique to cross-border negotiations helps executives optimize their companies’ strengths, minimize their weaknesses, be open to opportunities, and be ready to neutralize threats. On the basis of his or her company’s strengths, a negotiator can obtain more support for the firm’s proposals during the discussions. Similarly, to offset weaknesses, the negotiator can minimize their importance by focusing on other aspects of the talks or broadening the range of issues. With regard to opportunities, specific plans can be incorporated into the negotiating
strategy for capitalizing on them. Finally, any threats to the company's business operations identified through the SWOT analysis can be countered in the negotiations through specific measures or proposals.

Depending on the nature of the negotiations, a negotiator can emphasize specific features, or elements, of the SWOT analysis in drawing up the strategy. If the aim is to enter into a joint venture, for instance, the SWOT analysis will be interpreted differently than if the goal is to find a new export agent. For example, if a company, through the SWOT analysis, finds that one of its weak points is a lack of consumer familiarity with its products, the negotiator might offer promotional allowance to overcome this weakness in negotiation with prospective agents in the target market. At the same time, the negotiator may use one of the company's strengths identified through the SWOT analysis—the high quality of the firm's wooden cabinets—to convince prospective agents to work with the firm on favorable terms.

Assessing BATNA

By assessing its BATNA (i.e., the best alternative to a negotiated agreement), a party can greatly improve the negotiation results by evaluating the negotiated agreement against the alternative.10 If the negotiated agreement is better, close the deal. If the alternative is worse, walk away.

The BATNA approach changes the rules of the game. Negotiators no longer see their role as that of producing agreements but rather as making good choices. If an agreement is not reached, negotiators do not consider that a failure. If a deal is rejected because it falls short of a company's BATNA, the net result is a success, not a failure.

The BATNA is affected by several elements, namely, alternatives, deadlines, interests, knowledge, experience, negotiator's resources, and resources of the other party. Any change in these elements is likely to change the BATNA. If, during the discussions, the negotiator obtains new information that influences the BATNA, he or she should take time to review the BATNA. The BATNA is not static, but dynamic, in a negotiation situation.

The BATNA should be identified at the outset. This way an objective target that a negotiated agreement must meet is set, and negotiators do not have to depend on subjective judgments to evaluate the outcome. As the negotiation proceeds, the negotiator should think of ways to improve
the BATNA by doing further research, by considering alternative investments, or by identifying other potential allies. An attempt should be made to assess the other party’s BATNA as well. The basic principle of BATNA is, what would you do if you do not reach the agreement? Furthermore, you should not accept an agreement that is not at least as good as the BATNA.

Going Into Negotiations

When conducting business negotiations, executives should keep in mind certain points that may arise as the discussions proceed:

- Situations to avoid during the negotiations: conflict, controversy, and criticism vis-à-vis the other party
- Attitudes to develop during the talks: communication, collaboration, and cooperation
- Goals to seek during the discussions: change (or, alternatively, continuity), coherence, creativity, consensus, commitment, and compensation

In business negotiations, particularly those between executives from different economic and social environments, introducing options and keeping an open mind are necessary for establishing a fruitful, cooperative relationship. Experienced negotiators consider the skill of introducing options to be a key asset in conducting successful discussions. Giving the other party the feeling that new proposed ideas have come from both sides also contributes greatly to smooth negotiations.

The goal in such negotiations is to reach a mutually beneficial agreement to both parties, leading to substantive results in the long run, including repeat business. To negotiate mutually beneficial agreements requires a willingness to cooperate with others. Talks, therefore, should focus on common interests of the parties. If the discussions reach an impasse for any reason, it may be necessary to refocus them by analyzing and understanding the needs and problems of each party.

The approach to business negotiations is a mutual effort. In an international business agreement (whether it concerns securing an order, appointing a new agent, or entering into a joint venture), the aim is to
create a shared investment in a common future business relationship. In other words, a negotiated agreement should be doable, profitable, and sustainable.

**Plan of the Book**

In today’s global business environment, you must negotiate with people born and raised in different cultures. Global deal making has become a key element of modern business life. To compete abroad, you need skills to negotiate effectively with your counterparts in other countries. This book provides insightful, readable, well-organized material about the conceptual and practical essentials of international business negotiations.

The book is divided into five parts. Part 1 covers an overview of global negotiations, organized as Chapter 1. Part 2, made up of Chapters 2 and 3, is devoted to the negotiation environment and setting. Discussed in Chapter 1 are a number of variables relative to negotiation environment and negotiation setting. Of these, one environmental factor and one setting factor stand out as having the biggest impact in global negotiations: influence of culture and choice of proper negotiating style. Chapter 2 examines the important role of cultural differences in global negotiations, and Chapter 3 discusses the appropriate negotiation style for successful results.

The negotiation process is examined in Part 3. The subject is covered in Chapters 4 to 9. Chapter 4 deals with prenegotiation planning. Initiating global business negotiation and making the first move are covered in Chapter 5. In Chapter 6, trading concessions are examined. Chapter 7 explores price negotiations. Closing negotiations is covered in Chapter 8. Chapter 9 focuses on renegotiations.

The two chapters (i.e., Chapters 10 and 11) in Part 4 deal with negotiation tools. The subject of Chapter 10 is communication skills for effective negotiations, while Chapter 11 is devoted to demystifying the role of power in negotiation.

Finally, Part 5 includes three chapters: Chapter 12 explores online negotiations; Chapter 13 examines gender role in cross-cultural negotiations; Chapter 14 focuses on negotiations by smaller firms. Cases A–G contain cases and exercises dealing with global business negotiations.
Summary

For most companies, global business is a fact of life. That means executives must negotiate with people from two or more different cultures. This is more difficult than simply making deals with people who share one's own culture. Therefore, it is important to learn fundamental principles of global business negotiations.

This chapter introduces the global business negotiation architecture and its three aspects: negotiation environment, negotiation setting, and negotiation process. The environment defines the business climate in which negotiation takes place. The setting specifies the power, style, and interdependence of the negotiating parties. The negotiation process involves planning prenegotiation, initiating global business negotiation, negotiating price, closing negotiations, and renegotiating.

The next topic concerns negotiation infrastructure, which includes assessing the status of a company from the viewpoint of global negotiation and assessing the BATNA.
Acknowledgment, listening and, 176–177
active listening, 177
agenda, bargaining power of setting, 193
agenda, in negotiating meeting, 86–87
agreements
cultural forms of, 35, 49–50
in Renault-Nissan Alliance case study, 266–278
Alcaltel case study, 165–166
alternatives
bargaining power of, 192–193
best alternative to a negotiated agreement strategy and, 78–79
in closing negotiations, 143
prenegotiation planning and inclusion of, 73
in Renault-Nissan Alliance case study, 265–278
ambiguities in agreements, renegotiation for clarification of, 166
anchor point, initial offer and importance of, 92
artifacts, nonverbal communication and, 185
Asia, negotiations case study for, 251–253
assertiveness, harmony vs., 45–46
assumptions, in closing negotiations, 143–144
audience expansion, internet negotiations and, 206
authority
in negotiations, 100
prenegotiation planning and establishment of, 74
balanced agreement, prevention of renegotiation with, 158
bargaining power
estimation of, 197–198
global negotiations and role of, 17
small enterprise negotiations with large firms, 225–235
sources of, 189–197
bargaining zone, limits of negotiation and, 79–81
Barshefsky, Charlene, 219–221
best alternative to a negotiated agreement (BATNA) strategy
dynamic concession trading and, 117–118
final offer and, 103
limits of negotiation and, 77–79
negotiation assessment using, 24–25
in Renault-Nissan Alliance case study, 274–275
best practices for concessions, 118–120
bid evaluation and strategy, small enterprise negotiations with large firms and test for, 230–235
body language, 182–183. See also nonverbal communication skills
global negotiations and importance of, 15
nonverbal communication through, 34
bottom line, knowledge of, bargaining power through, 196
bottom up agreements, 50
brainstorming, best alternative to a negotiated agreement strategy and, 78–79
bureaucratic restrictions, global negotiations and, 9–11
business cards, protocols for exchange of, 32–33
business-to-business negotiations concession strategies in, 110
Renault-Nissan Alliance negotiations case study and, 261–278
capital turnover ratio, international price setting and, 127–130
China
gender bias concerning negotiations in, 219–221
government and policy changes in, 11–12
negotiations case study, 237–240
clarification, global negotiations and, 22–23
closing negotiations
dos and don’ts, 150
guidelines for choosing, 146
methods for, 143–146
timing of, 146–147
clues, in closing negotiations, 147–148
coalitions, Renault-Nissan Alliance negotiations case study and, 260–278
coercive power, limits of negotiation and, 81
collectivism, cultural dimensions theory and, 44
commitment power, as bargaining tool, 196–197
communication skills
cross-cultural problems, 173–175
cultural factors in, 33–34
direct or indirect, 49
for effective negotiations, 171–188
Hall’s Silent language framework and, 40–42
improvement guidelines for, 175–182
interpreters in negotiations and, 185–187
listening and, 175–177
low-context vs. high-context protocols, 41–42
lying and, 102
nonverbal communication, 33–34, 102, 172, 182–185
questioning guidelines, 177–181
renegotiation, 160–161
role reversal and, 181
competition
cost analysis of, 123
knowledge of, 74–76, 191–192
offer strategy in line with, 95–96
pricing strategy and nature of, 124–125
Renault-Nissan Alliance case study and role of, 263, 268–278
competitive negotiating style, 55–56
development of, 82–83
internet negotiations, 210–211
comprehension, global negotiations and, 22–23
concessions
absence of strategy for, 116
best practices for, 118–120
in closing negotiations, 144
dynamic concessions, 117–118
equal-value concessions, 115
flexibility in negotiations and, 112–114
greater-value concessions, 116
identification of, 108–110
information exchange in, 110–112
last-minute concessions, 114–115
lesser-value concessions, 115
minor concessions, 117
record-keeping for, 117–118
single concessions, 116
strategies and patterns for, 84–85, 107–120
conditional questions, 179
conflict management
global negotiations and role of, 17–18
internet negotiations and, 207
consensus building, cultural issues in, 50
consistency, in negotiations, 98–99
INDEX 315

cost, insurance, and freight (CIF) pricing, 132–133
cost analysis
international price setting and, 127–130
price negotiations and, 122–123
creative problem solving
fear of renegotiation and, 161
information exchange in concessions and, 110–112
negotiation and, 56–60
small enterprise negotiations with large firms and role of, 228
credibility, global negotiations and, 22–23
cross-cultural communication
problems
information processing errors and, 174–175
negotiation and, 173–175
cross-gender negotiations, guidelines for, 217–221
cultural differences
communication problems and, 171–188
coping traits for, 48–50
fear of renegotiation, 160–161
gender differences in negotiations and, 214–221
global negotiations and, 13–15, 30–51
guidelines for understanding of, 35–38
Hall’s Silent Language cultural framework, 40–42
Hofstede’s cultural dimensions theory, 43–47
interpreters in negotiations and, 185–187
listening skills and, 176–177
nonverbal communication and, 182–185
renegotiations and, 154–155
currency fluctuations
export pricing and, 130–132
global negotiations and, 8–9
customer demand, pricing strategy and, 125–126
Daimler-Benz, Renault-Nissan Alliance negotiations case study and, 256–278
deadline
bargaining power of setting, 194–195
in closing negotiations, 148–149
decision process
bargaining power in, 196–197
negotiation and, 47
small enterprise negotiations with large firms and, 227–228
defective performance problems,
preemptive negotiation and, 162–163
delivered duty-paid pricing, 132–133
delivery issues, renegotiation and, 161
demand analysis, pricing strategy and, 125–126
department, cultural factors in,
38–40
direct communication, negotiation culture and, 49
dispute resolution, renegotiations and, 154
distance limitations, internet negotiations and, 204
distributive bargaining, global negotiations and, 18
dodger negotiating style, 54
domestic African transactions, pricing strategies in, 132–133
douin, george, 258–278
dreamer negotiating style, 54–55
dynamic concession trading, 117–118
economies of scale, pricing strategy and, 123
economist intelligence unit (eiu), 8, 10–11
effective negotiation, checklist for, 198–199
80/20 principle concession strategies and, 110–112
minor concessions, 117
price negotiation planning, 134–136
small enterprise negotiations with large firms, 225–226
either-or closing technique, in closing negotiations, 143
elasticity of demand, pricing strategy and, 125–126
emotional involvement, negotiations and, 49
equal-value concessions, 115
errors in negotiations, list of, 67–68
escalation of export prices, 131–133
etiquette in asking questions, 178–179
cross-cultural comparisons, 38–40
European negotiations case study, 241–243
evaluation criteria, in renault-nissan alliance case study, 274–275
exchange rates, global negotiations and, 8–9
ex-factory prices, defined, 132
existing agreements, renegotiation of ambiguities in, 166
experience effect, pricing strategies and, 123
export pricing escalation in, 131–133
international price setting and, 130–132
price negotiation planning, 134–136
external stakeholders, global negotiations and, 16
extraduel renegotiation, 164–165
face-to-face negotiation, internet negotiations combined with, 210
factory closure negotiations case study, 279–285
failed negotiations, renegotiation in wake of, 165–166
fairness in negotiation, limitations of, 103
femininity cultures, gender differences in negotiation and, 215–221
final offer in closing negotiations, 147–148
strategies for making, 103
firm’s attributes, price negotiation emphasis on, 137
first offer, strategies for making, 92
fixed to variable cost ratio, pricing strategy and, 123
flexibility in negotiations
concession strategies and, 112–114
deadline flexibility, 149
price negotiations, 138
foreign government controls, global negotiations and, 9–11
foreign investment, government and bureaucratic suspicions of, 9–11
formal style, in negotiation, 49
free alongside ship (fas) pricing, 132
free on board (fob) pricing, 132
full cost analysis, international price setting and, 127–130
fuyo keiretsu, renault-nissan alliance negotiations case study and, 259–278
gender bias in global negotiations, 213–221
internet negotiations and reduction of, 205
ghosn, carlos, 258–278
global businesses negotiation architecture, 4–6
negotiation environment, 6–16
negotiation infrastructure, 23–25
negotiation process, 21–23
negotiation setting, 17–21
prenegotiation guidelines, 25–26
INDEX  317

good setting
opposition goals, knowledge of, 72–73
prenegotiation planning and, 69–70
Renault-Nissan Alliance case study and role of, 265–278
government change and instability
global negotiations and effects of, 11–13
renegotiations and, 154
government regulations
pricing strategy and, 126
Renault-Nissan Alliance negotiations case study and, 260, 268–278
greater-value concessions, 116
group-oriented culture, 35
haggler negotiating style, 55
Hall, Edward, Silent Language cultural framework, 40–42
halo effect, communication in negotiation and, 173
Hanawa, Yoshikawa, 258–278
hard concessions, identification of, 109–110
hard negotiation, pitfalls in global environment of, 103
harmony, assertiveness vs., 45–46
high offer strategy
guidelines for, 93–96
small enterprise negotiations with large firms and, 232–235
Hofstede, Geert, cultural dimensions theory of, 43–47, 215–216
ideology, global negotiations and differences in, 15–16
immediate stakeholders, global negotiations and, 20
implementation issues, Renault-Nissan Alliance case study, 277–278
incremental closing negotiations, 144
incremental cost analysis, international price setting and, 127–130
indirect communication, negotiation culture and, 49
individual firm demand
pricing strategy and, 126
small enterprise negotiations with large firms and, 227–228
individualism, cultural characteristics of, 35, 44
industry demand, pricing strategy and, 125–126
informal influences in negotiation, 49
negotiation and, 47–48
information exchange
concession strategies and, 109–112
information processing errors and, 174–175
initial position, strategy for establishing, 84
initiation of negotiations, guidelines for, 91–105
instability, global negotiations and effects if, 11–13
integrative bargaining, global negotiations and, 18
interests of opposition
prenegotiation planning and knowledge of, 72
Renault-Nissan Alliance case study and, 263–278
Renault-Nissan Alliance case study and role of, 264–278
international business environment, renegotiations due to changes in, 154
international price setting
government regulations and, 126
pricing strategy and, 127–132
International Trade Administration (ITA), global negotiations and, 11–12
internet negotiations, 203–212
benefits, 203–206
cooperative vs. competitive approach to, 210–211
face-to-face discussion combined with, 210
pitfalls of, 207
planning for, 209–210
pros and cons of, 211–212
strategies for, 208–212
internet negotiations, \textit{(continued)}
suitable situations for, 208–209
interpreters, role in negotiation of,
185–187
intradeal renegotiation, 158, 163–164
introductions, in negotiating meeting,
88–89
ISO 9000 certification, small enterprise negotiations with large firms and, 226
issue-related negotiations, gender differences in, 214–221
Japan, Renault-Nissan Alliance negotiations case study and, 255–278
joint gain maximization, negotiation styles and, 59–60
key individuals in negotiation, 46–47
key terms of agreements, renegotiation and reinterpretation of, 166–167
knowledge of business, as power source in negotiation, 190
language
communication problems and, 171–172
gender differences in negotiation and, 216–221
global negotiations and importance of, 15
use of interpreters and, 185–187
large firms, small enterprise negotiations with, 223–235
last-minute concessions in closing negotiations, 148
limitations of, 114–115
late performance problems, preemptive negotiation and, 162–163
Latin American negotiations case study, 245–247
legal pluralism, global negotiations and, 6–7
legitimate power, limits of negotiation and, 81
lesser-value concessions, 115
liking principle, in negotiations, 99–100
limits of negotiation, knowledge of, 76–81
linkage approach to closing negotiations, 144
prevention of renegotiation with, 158
Renault-Nissan Alliance case study and, 260, 267–278
listening skills
bargaining power of, 195
negotiation communications and, 175–177
locked in agreements, prevention of renegotiation with, 157–158
logical communication, in negotiations, 171–172
Long-Term Orientation Index, cultural process and, 45–46
low offer strategy, guidelines for, 93–96
Lucent technologies case study, 165–166
lying
about reservation point, 102
detection of, 102
management style
global negotiations and, 20–21
Renault-Nissan Alliance case study and, 262
market approach, international price setting and, 127–130
market share, pricing strategy and competition for, 124–125
masculinity

cultural dimensions theory and, 45–46
gender differences in negotiation and, 215–221
meeting site, selection of, 87–88
Mexico, negotiations case study in, 245–247
Middle East, negotiations case study in, 249–250
Monochronic cultures, characteristics of, 41–42
multichannel communication, lying and, 102
multinegotiations, internet negotiations as, 206
needs of opposition, prenegotiation planning and knowledge of, 72
negative bargaining zone, limits of negotiation and, 79–81
negotiating styles, 53–56
determination of, 61–64
gender differences in, 213–221
of opposition, 73
strengths and weaknesses of, 56–60
negotiation agreement form in, 49–50
attitudes in, 48
communications and, 49
contract vs. relationship as goal of, 48
cultural definitions, 32
emotional involvement in, 49
influences on, 98–101
personal style in, 49
players and process in, 46–48
risk tolerance in, 50
single leader vs. consensus in, 50
time sensitivity in, 49
tough vs. soft negotiation, 103
negotiation analysis diagnostic techniques, 257–278
elements of, 256–258
pros and cons of, 273–278
negotiation architecture, global negotiations, 4–6
negotiation environment, global businesses, 6–16
bargaining power of own environment, 193–194
cultural differences, 13–15
currency fluctuations and foreign exchange, 8–9
external stakeholders, 16
foreign government controls and bureaucracy, 9–11
ideological differences, 15–16
instability and change, 11–13
legal pluralism, 6–7
political pluralism, 7–8
renegotiations due to changes in, 154
negotiation infrastructure, global negotiations and, 23–25
negotiation meeting, planning for, 86–89
negotiation process disregard in Renault-Nissan Alliance case study of, 275
global negotiations, 21–23
negotiation setting, global negotiations and, 17–21
negotiators’ relationships
cultural factors in, 32
global negotiations and, 18
networking, small enterprise negotiations with large firms and, 227–228
neutral setting, selection of, 193–194
Nissan Motors Corporation. See Renault-Nissan Alliance negotiations case study
nonperformance problems, preemptive negotiation and, 163
nontangible benefits, concession strategies and, 109–110
nonverbal communication skills. See also body language
cultural factors in, 33–34
effective negotiation and, 172
guidelines for, 182–185
lying and, 102
non-zero-sum game, global negotiations and conflict management, 18
objections
price negotiation planning for, 134–136
strategies for overcoming, 96–97
offer strategies
final offer, 103
high vs. low, 93–96
overcoming objections, 96–97
open questions, 178
opposition
knowledge of, as negotiating power, 190–191
prenegotiation planning and knowledge of, 71–74
options, development of, 192–193
outcomes assessment
global negotiations and, 19
in Renault-Nissan Alliance case study, 274
Pareto frontier, negotiating styles, 56–57
parochialism, in Renault-Nissan Alliance case study of, 275–276
passive listening, 176
patterns in concession trading, 113–120
perceptual bias communication in negotiation and, 173–174
internet negotiations and reduction of, 204–205
performance bond, prevention of renegotiations with, 158
personal style assessment inventory, 62–64
negotiation and role of, 49
Renault-Nissan Alliance case study and role of, 265–278
physical appearance, nonverbal communication and, 185
points of view, of buyers and sellers, 103
political pluralism, global negotiations and, 7–8
Polychronic cultures, characteristics of, 41–42
positive bargaining zone, limits of negotiation and, 79–81
postdeal renegotiation, 164
power distance (distribution of power), cultural dimensions of, 43
power estimation grid, 197–198
power negotiations estimation of power in, 197–198
internet negotiations and, 205–206
limits of, 81
sources of power and, 189–197
pragmatic communication, for effective negotiations, 171–188
preemptive negotiation, 162–163
prenegotiation planning, 25–26
basic principles, 67–90
concession strategies, 108–112
cross-gender negotiations, 219–221
factory closure negotiations case study, 279–285
global negotiations, 21–23
goal identification, 69–70
internet negotiations, 209–210
issues identification, 68–69
knowledge of competition and, 74–76
limits of negotiation and, 76–81
negotiation meeting planning, 86–89
opposition negotiation styles and, 71–74
price negotiations, 134–136
small enterprise negotiations with large firms, 224–235
strategy and tactics development, 82–86
price destination, export pricing and, 130–132
price negotiations competition and, 124–125
concession strategies and avoidance of, 110
cost analysis, 122–123
cost and market approaches, 127–130
customer perspective, 125–126
domestic African transactions, 132–133
export pricing, 130–132
firm’s attributions, emphasis on, 137
flexibility in, 138
government regulations, 126
guidelines for, 121, 139–141
international price setting, 127–132
internet negotiations and emphasis on, 207
planning for, 134–137
price package offers, 138–139
pricing factors, 122–126
pricing objectives, 122
product differentiation, 139
product’s attributes, emphasis on, 137–138
price packages, price negotiations using, 138–139
price-sensitive industries, pricing strategies and, 123
pricing and marketing objectives
price negotiations and, 122
Renault-Nissan Alliance case study and, 262
pricing orientation, international price setting and, 127–130
product attributes, price negotiation emphasis on, 137–138
product differentiation
export pricing and, 130–132
price negotiations using, 139
pricing strategy and competition in, 124–125
profit markup, international price setting and, 127–130
projection, communication in negotiation and, 174
prompting in closing negotiations, 144
protocol for negotiation, cultural factors in, 32–33, 38–40
questioning protocols for negotiations, 93–96
cross-gender negotiations, 217–221
example of, 179–181
guidelines for asking questions, 177–181
price negotiation planning, 136
quotations for export prices, 131–132
rate of return, international price setting and, 128–130
readiness for negotiation, small enterprise negotiations with large firms and test for, 229–230
reciprocity
concession trading and, 113, 115–120
in negotiations, 98
record-keeping for concession trading, 117–118
referent power, limits of negotiation and, 81
rephrasing, clarification through, 181–182
relationship-oriented cultures
concession strategies in, 108–110
goals and objectives of, 48
late concessions in, 111–112
negotiator's behavior and, 18, 32
relationship-oriented negotiations
concession strategies in, 108–112
gender differences and, 214–221
goals in, 48
Renault-Nissan Alliance case study and, 262–278
religion, global negotiations and, 14–15
Renault-Nissan Alliance negotiations case study, 58–60, 255–278
participants in, 258–278
renegotiation
approaches to, 166–167
built-in costs for, 158–159
contract provisions for, 158–159
extradeal, 164–165
in failed agreements, 165–166
guidelines for, 153–168
intra deal, 163–164
overcoming fear of, 160–161
postdeal, 164
preemptive, 162–163
prevention of, 157–158
reasons for, 153–155
reducing need for, 155–157
types of, 161–166
restatement, clarification through, 181–182
reputation of opposition, prenegotiation planning and knowledge of, 73
reservation points
determination of, 79
limits of negotiation and, 77
lying about, 102
of other party, determination of, 102
zone of potential agreement and, 101
resistance point, bargaining power of, 196
resources of opposition, prenegotiation planning and knowledge of, 72
restatement, clarification through, 181–182
reward power, limits of negotiation and, 81
risk assessment, cultural differences in, 35, 50
role reversal in negotiations, 181
scarcity, in negotiations, 101
scheduling strategies, negotiating meeting, 88
Schweitzer, Louis, 255–278
selective perception, communication in negotiation and, 174
sensitivity of price, pricing strategy and, 125–126
silence, power of, 195
single concessions, 116
single-leader negotiations, cultural issues in, 50
size of concession, concession trading and, 113–114
small enterprises, negotiations with large firms, strategies for, 223–235
social proof, in negotiations, 99
soft concessions, identification of, 109–110
soft negotiation
gender bias concerning, 219–221
pitfalls in global environment of, 103
sovereignty issues, global negotiations and, 12–13
space interactions, nonverbal communication and, 184
splitting the difference method for closing negotiations, 145
status issues
internet negotiations and reduction of, 204–205
small enterprise negotiations with large firms, 226
stereotypes
communication in negotiation and, 173
cultural differences and avoidance of, 35–38
strategy and tactics
development of, 82–86
prenegotiation planning and, 74
selection of, 83
small enterprise negotiations with large firms, 224–229
strengths, weaknesses, opportunities, and threats (SWOT) analysis negotiation assessment using, 23–24
prenegotiation planning and, 71
summarizing
clarification through, 181–182
in closing negotiations, 145
supply crises, small enterprise negotiations with large firms and, 226–227
supporting arguments, development of, 85–86
tangible outcomes
concession strategies and, 109–110
global negotiations and, 19
target points, limits of negotiation and, 77
team organization, cultural forms, 50
third party in negotiations, competitors as, 74–76
time management
bargaining power of, 194–195
in closing negotiations, 146–147
concession strategies and, 110–112
cultural differences in meaning of, 34–35
global negotiations and cultural attitudes concerning, 15
internet negotiations and, 204
negotiations and sensitivity to, 49
nonverbal communication and, 184–185
small enterprise negotiations with large firms, 224–225
top down agreements, 50
total costs, pricing strategy and, 126
touching, nonverbal communication and, 183–184
toxic issues, Renault-Nissan Alliance case study and, 262–278
trading concessions
best practices for, 118–120
Renault-Nissan Alliance case study and role of, 265–277
<table>
<thead>
<tr>
<th>Topic</th>
<th>Page Range or Reference</th>
</tr>
</thead>
<tbody>
<tr>
<td>strategies and patterns for closing negotiations</td>
<td>107–120</td>
</tr>
<tr>
<td>trial method for closing negotiations</td>
<td>145</td>
</tr>
<tr>
<td>ultimatum/or else method for closing negotiations</td>
<td>146</td>
</tr>
<tr>
<td>uncertainty, cultural tolerance and avoidance of</td>
<td>43–44</td>
</tr>
<tr>
<td>understanding, techniques for clarification of</td>
<td>181–182</td>
</tr>
<tr>
<td>value creation, global negotiations</td>
<td>22–23</td>
</tr>
<tr>
<td>vocalics, nonverbal communication</td>
<td>183</td>
</tr>
<tr>
<td>volume-sensitive industries, pricing strategies and</td>
<td>123</td>
</tr>
<tr>
<td>waivers from negotiated agreements, renegotiation and</td>
<td>167</td>
</tr>
<tr>
<td>win-lose attitude, as negotiation approach</td>
<td>48</td>
</tr>
<tr>
<td>win-win attitude</td>
<td></td>
</tr>
<tr>
<td>factory closure negotiations case study</td>
<td>281–285</td>
</tr>
<tr>
<td>as negotiation approach</td>
<td>48</td>
</tr>
<tr>
<td>Wireless Application Protocol (WAP), internet negotiations and</td>
<td>206</td>
</tr>
<tr>
<td>withdrawal from negotiation, small enterprise negotiations with large firms and strategy of</td>
<td>228–229</td>
</tr>
<tr>
<td>women negotiators</td>
<td></td>
</tr>
<tr>
<td>gender bias in global negotiations</td>
<td>213–221</td>
</tr>
<tr>
<td>guidelines for</td>
<td>217–221</td>
</tr>
<tr>
<td>zero-sum game, global negotiations</td>
<td>18</td>
</tr>
<tr>
<td>zone of possible agreement (ZOPA) determination</td>
<td>79–80</td>
</tr>
<tr>
<td>limits of negotiation and</td>
<td>76–77</td>
</tr>
<tr>
<td>reservation points and</td>
<td>101</td>
</tr>
</tbody>
</table>