Cross-Culture Negotiations

The global energy industry has significant opportunities and challenges. With any large reward, there is an element of risk associated. One risk that must be mitigated is misunderstandings resulting from cross-cultural negotiation processes. **Dr Scott M Shemwell**, Chairman and CEO of data management firm, Strategic Decision Sciences, examines how cultural differences can influence business negotiations in the power sector.

Photo: Bloomberg

It is estimated that worldwide electric generating capacity will grow by approximately 906GW by 2006. Roughly 18% of this capacity will be built in China alone and some posit that the power sector in India will transform itself from a highly state-regulated one to a free market environment incorporating the independent power producer (IPP) business model.

Asian power producers are competing for capital on global markets. As capital is agnostic and will flow towards the best Pareto optimal point on the risk-reward curve, IPPs must attract capital on the global markets and convince investors that return on investment (ROI) scenarios are more attractive that competing firms. On the other hand, investors must understand the level of risk they are accepting and mitigate accordingly.

Risk mitigation, for both parties, begins during the *deal* negotiation process. Negotiating major international deals is a challenging process with a level of complexity that does not exist when deal-making in one's own country. If expectations are not set at the beginning, if an understanding of cultural and individual diversity is not arrived at, and if flexibility is not inherent to the "deal", then the risk of failure is high.

Throughout Asia, power sector organisations, their suppliers and financiers are seeking relationships with companies who can complement their expertise and fiscal capability. Often this will mean looking globally for technology, management, and funding. To the extent that these companies can negotiate long-term, productive relationships with their partners, will determine the success of these companies in the international marketplace.

Successful deal making requires that executives become experts in international business negotiations and that global negotiations be seen as fundamentally different from the negotiations of domestic deals. This thinking implies that international business deals are extensions of international relations as much as they are business negotiations – and a much different skill set is required.

Most understand that there are cultural and societal differences between Western and Asian people. The differences are often obvious and relatively understandable and even stereotypical, such as the need for consensus in many Asian cultures versus a more rapid-fire Western style. If either group conducts negotiations using simplistic stereotypes, then the likelihood of success goes down.

This author has significant experience putting together large energy and technology deals between Asia-based firms and government agencies and Western providers, and has learned that deal-making styles vary substantially around the globe. In an attempt to better understand

Indices of Universal Categories of Culture:

Country	PDI	UAI	IDV	MAS
Hong Kong	68	29	25	57
India	77	40	48	56
Japan	54	92	46	95
Philippines	94	44	32	64
Singapore	74	8	20	48
Taiwan	58	69	17	45
Mean	61	40	27	52
USA	40	46	91	62

** 1980 data*

** Power Distance Index (PDI), Uncertainty Avoidance Index (UAI), Individualism Index (IDV) and Masculinity Index (MAS)*

negotiating styles with a view towards winning more business, the writer's doctoral dissertation assesses divergent styles between Japanese and American business executives from a systemic approach.

There are clear and subtle differences in negotiation styles that must be addressed if an acceptable projected rate of return for each party is to be obtained. Executives shortcut this process at great peril. Hofstede Geert, in "*Culture's Consequences: International Differences in Work-Related Values (1980)*", developed four indices categorised as *universal categories of culture* – Power Distance (social stratification), Uncertainty Avoidance (need for structure), Individualism (relationships), and Masculinity (social role of sexes). A sampling of indices of key Asian countries and the United States is reflected above.

Is it possible that these universal categories of culture may find their way into the deal-making process? Most likely, and if so, is it any wonder that the end result of business deals between Asian IPPs and Western financial firms do not meet the expectations of either parties?

There is a better way. Management tools are readily available to facilitate better outcomes. One such methodology is straightforward, easy to use and works not just for Asian-Western negotiations but even inter-Asian or any other cultural combination. The "RBC framework" is well-established and proven to aid better deal-making.

The Role of Negotiation in "Deal-Making"

International deal-making by its very nature is complex. Fundamentally, they are the interaction of three key facets: parties' RELATIONSHIPS, parties' BEHAVIOURS, and influencing CONDITIONS (RBC) and the basic interaction between these aspects[1].

The concept of international negotiation has been expanded to include environmental factors previously only touched on. Not only does the perception consist of political, economic, institutional-legal, and cultural issues, but the new paradigm also consists of "negotiation context, negotiator characteristics, strategic selections and process, and negotiation outcome".

Strongly implied in the above discussion is the fact that how differences in culture are dealt with will significantly dictate the success or failure of the negotiation of international deals. Furthermore, the environmental conditions in which negotiations are conducted will have some influence on the results of these negotiations.

Finally, behaviour patterns and priorities of the different parties are an important consider-

[1] *Weiss, Stephen E, Analysis of Complex Negotiation in International Business: The RBC Perspective, Organization Science, 4(2) page 269-300, 1993.*

ation for the negotiator in his or her deliberations. In other words, human behaviour is an important aspect of any negotiation process. It is even more important when the other negotiator's behaviour may be driven by another culture or religious belief.

Win - Win

Americans, as well as other cultures, are taught the art of bargaining. In other words, during negotiation, *I attempt to maximise **MY** position at your expense*[2]. This is the common approach of the merchant-buyer relationship in a bazaar. The implication is that this is a one-time deal and that the buyer and seller will not have a long-term relationship as a result of the transaction.

Unfortunately, this is the approach that most businessmen take in the negotiation of long-term contracts. Generally, there is a feeling that if the other party wins something in the negotiation, then I must be giving something up. Unfortunately, this is the attitude that negotiators have during the negotiation of international strategic alliances.

For example, Americans often develop a behavioural sequence that sets an objective, develops a plan to reach that objective, and attempts to change the environment to accommodate that plan. In the negotiation of an international strategic alliance, this approach may be at odds with the Japanese negotiation style where the relationship is the important ingredient in the deal.

In order for a strategic alliance to have value to each party, it is necessary that each party believe that the relationship is meeting his or her needs *(win-win)*. This suggests that the American approach of attempting to set the agenda and negotiate accordingly may be counterproductive to the goals of an international strategic alliance with a Japanese firm.

Cross-Cultural Considerations

The different social behaviour patterns international negotiators encounter have been broadly and loosely defined as cultural differences. Furthermore, there is limited research on the relationship of culture to negotiation, most probably because of the inherent difficulties in the methodology of studying these problems. There are, however, four approaches taken by negotiation literature implying a connection between culture and behaviour : *culture as a learned behaviour, culture as shared value, culture as dialectic, and culture-in-context*. Each approach is conceptually different, and this implies that it is important to understand these differences during the conduct of negotiation of international partnerships.

Learned behaviours focuses on negotiating etiquette, that is the use of proper social customs, such as whether or not negotiations are conducted over dinner or not. Most books on "how to negotiate abroad" are written based on this approach to international negotiations.

Culture as a shared value focuses on the negotiation process. That is, one's thinking precedes action, and that these thinking patterns are derived from one's cultural context. The shared value approach typically assumes homogeneity in the culture's dominant or commonly-held cluster of values. This approach can potentially lead to failed negotiations if the negotiators themselves do not follow the rules of perception in the eyes of their counterparts on the other side of the bargaining table.

A different model of the make-up of culture is derived from the work of Erik H. Erikson in *Childhood and Society* explaining child development. Using Erikson's work, Michael Kammen asserted that a set of "dyads" or values in dialectic tension is common throughout America's national experience. That is to say, homogeneity required by shared values is non-existent, and that tension, not consistency, is the component parts of any given culture.

The culture-in-context model is a complex quintessential integration of the current understanding of human behaviour by "systems theorists", such as Max Weber and Talcott Parsons, that human behaviour is not dictated by single cause explanations. Therefore, according to this model, the international negotiator needs to understand that even within such homogeneous cultures as the Japanese, complex human behaviour should be expected.

[2] *Ury, William, Getting Past No, 1991.*

Furthermore, the perceptions that different cultures have concerning trust are an important issue in the conduct of any negotiation. No contract can be drawn that covers every conceivable situation. Parties to any venture, whether international or domestic, must have a level of trust in each other. Humans by their very nature are opportunistic, and to the extent that parties cannot trust each other dictate the level of contractual constraints to prevent opportunistic behaviour. Trust in international negotiations manifests itself in the transaction cost theory, which suggests that some cultures are more trustworthy and less opportunistic than others[3]. Obviously, strategic alliances negotiated between cultures with differing levels of transaction costs carry increased risk.

Cultural diversity is not a simple or trivial issue. Understanding cultural differences is critical in the negotiation and operation of any international strategic alliance. While most Americans understand that there is diversity in the American culture, there is a tendency to treat other cultures as simplistic and homogeneous. If the expectations of the American partner in an international strategic alliance are formed on these simplistic models, is it any wonder that the risk of failure of these ventures is high? Furthermore, if the foreign partner makes the same simplistic assumptions about the American partner, then the risk of failure is perhaps even higher.

Roadmap for "Deal Making"

Two-thirds of all international business deals are in serious managerial or financial trouble within the first two years. Additionally, from the perspective of both parties, only about 50% are successful while about a third result in failure for both companies[4]. As previously stated, cultural differences and expectations may account for some of the high failure rate, but is cultural difference alone responsible for the general failure of international strategic alliances to perform as expected?

Cultural differences may largely account for both the RELATIONSHIP and BEHAVIOURAL aspects of the interaction of two or more parties in negotiation. However, these two facets do not adequately address the CONDITIONS aspect previously discussed. Furthermore, there is evidence that both international alliances and international acquisitions have roughly the same 50% success rate, so the CONDITIONS portion of the equation has little to do with the form of the relationship between companies. Rather, it is the nature of the alliance that is critical in determining its success or failure.

Evidence suggests that alliances between parties of roughly equal capabilities and financial commitment are most likely to succeed. Furthermore, these partnerships grow beyond the initial expectations of both parties, and frequently (75%) result in the acquisition of one partner by the other.

Additionally, the markets and expertise of both parties must be complementary. If both companies ultimately sell to the same market, acquisition of one party may be the preferred method of addressing the marketplace because if both companies continue to sell separately into the same market, the partners in the alliance may ultimately have competitive conflicts. This will also confuse customers and lead to internal organisation strife.

Furthermore, if one company is significantly stronger than the other, the strong partner will tend to dominate the weaker one. This will lead to dissatisfaction for both, because the stronger party will perceive that it does not have an equitable relationship to the other company in that they will feel that they are not receiving their fair share in the alliance. The weaker party may also sense a level of intimidation by the stronger entity.

The risks associated with an international deal are quite high. As with any relationship where both parties are required to give up some control, companies enter into negotiations with some trepidation. These risks are very real in the negotiation of an alliance between domestic companies, where there is no language barrier in

[3] Shane, Scott A, The Effect of Cultural Differences in Perceptions of Transaction Costs on National Differences in the Preference for Licensing, Best Papers Proceedings, Fifty-Second Annual Meeting of the Academy of Management, page 122-126, 1992.
[4] Bleeke, Joel & Ernst, David, The Way to Win in Cross-Border Alliances, Harvard Business Review, page 127-135, Nov-Dec 1991.

the very least. For the international negotiator, risks are magnified. Not only must there be a logical business case for the alliance, there must be an understanding of cultural differences of the two societies and corporate cultures.

For example, a large power provider that forms an alliance with a small computer software company to develop software for the energy industry may encounter conflict when power engineers come into contact with software engineers. If this venture is compounded by the fact that the power engineers are Japanese, with their own cultural, non-homogenous individual biases, and the software engineers are from the US, the opportunity for misunderstanding is high.

In this instance, the companies are of substantially different sizes, the national cultures are dissimilar, languages are different, religious beliefs are different, work habits may be different, industry expertise is different, and geographical location is different. In this case, the negotiators will need to understand and take these differences into consideration in their discussions. Likewise, once agreement is reached, managers on both sides will need to understand and account for these differences in their daily operational activities if the venture is to be successful.

Investing with an IPP

Typically, capital will partner with an operating entity to provide the IPP with a greater ability to advance its business plan. Capital partners are often minority participants and will look predominately for an ROI structured against a hurtle rate that reflects the risk associated with the deal. Components in the risk assessment may include political, currency exchange, and other issues of concern.

For their part, IPPs will be looking for the lowest cost of capital and a *friendly* relationship that will grow over the years. Increasingly, Asian IPPs must look outside the region for funding, and by default, will negotiate with funding organisations from different cultures.

The other major source of investment comes from the IPP peer group. Western power providers are actively seeking strategic relationships throughout Asia. These firms bring capital, technology, and a very different management style. Moreover, Western societies are not homogenous. UK and US investors may speak the same language but often have very different management styles and expectations.

The author has substantial experience negotiating major deals between Western and Asian firms. Negotiating styles and initial expectations are usually very different. Only after both parties have developed an understanding of what Win-Win means in the context of a given negotiation can progress be made.

One approach that has shown success in bridging the cultural gap during negotiation is to incorporate the RBC model throughout the negotiation process. This approach helps the negotiator better understand a matrix of dimensions they face and facilitate a Win-Win outcome. This is particularly important when a Western firm takes a minority position with an Asian IPP, thus protecting the investment and reducing the risk of misunderstanding.

Conclusion

The key to the success of an international strategic alliance is the negotiation prior to the culmination of the "deal", and the ongoing communication between the two or more parties during the life of the alliance. The very negotiation process that reaches agreement may ultimately determine the success or failure of the relationship.

Moreover, one cannot assume stereotypical responses from different cultures any more than one can with one's own culture. To the extent that stereotypes are assumed, there is a risk of failure.

Competition is getting tougher, and good strategic deals are beneficial to all partners. Furthermore, these partnerships contribute to an increased understanding among people around the world, and hopefully an increased interdependence thus reducing the possibility of martial conflict.

To position the strategic alliance in a win-win mode requires that the negotiator be sensitive to the cultural driven needs of the other party.

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