International Negotiation: How Do I Get Ready?

by Lothar Katz

Example: An International Negotiation Failure

> A marketing manager for a large U.S. technology company was visiting one of Germany's biggest corporations. He wanted to sell them on using his new product in their system. Since product and application were quite new, no market pricing was established yet, so the vendor was hoping to get a premium for their technological leadership.
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> The presentation went well, and the decision maker on the German side seemed interested. He asked for the price. '*We think that this product will be well received. We'll be able to sell it to you at 12 dollars*', the American responded. For a long moment, the German remained silent. '*Well, if pushed hard, we will actually be able to go as low as 10 dollars with this product.*' The German still didn't say a word. Twenty-five painful seconds later, the American couldn't take it any longer: '*Long-term, we are confident that we will be able to push the price down to 7 dollars*'. The German now looked puzzled but pleased.

This is not a fictitious story – it happened a few years ago. The American company eventually won the business, but at a price around 2-3 dollars lower than what would have been achievable. Volumes being sizeable, the negative profit impact amounted to more than $1 million! The funny thing was that the marketing manager, proficient in his field but lacking international experience, probably thought he got tricked into lowering his price by a smart negotiator, while the German may still be wondering how he got such a great deal without ever asking for it[1].

If your goal is to grow your international business, no situation presents greater risks to strategy execution and bottom line than a cross-cultural negotiation. Two factors often amplify this:

- The negotiation partner is largely an unknown quantity; their strategies and objectives are unclear.
- Interacting with the other culture is a first for one or both of the parties involved, and they are not well-prepared for it.

The challenge to understand the other party also exists in domestic negotiations. However, understanding strategies and objectives across cultures is much more difficult. Ignoring the need for culture-specific preparation is a deadly sin in any international business negotiation. There are many skilled and resourceful negotiators in the United States. Alas, without prior cross-cultural experience or preparation, most of them tend to assume that both sides share an implicit agreement over what represents legitimate negotiation tactics and that both sides believe in, or at least respect, the value of a win-win approach. Furthermore, they likely trust their ability to correctly interpret clues about where the other side stands in the decision making process.

None of these may actually be the case in international negotiations. Consequently, an American negotiator may cry foul when a South Korean, for example, continues to make

[1] If you're curious to find out what happened, skip forward to **Silence** in the **Negotiation Techniques** part of this paper.

demands after a contract has already been signed. Russian or Chinese negotiators may regard concessions by their American counterparts as a sign of weakness, happily take them without reciprocating, and be even more motivated than before to extort further 'free' concessions. Arabs might give small clues that they are willing to close the deal which their American negotiation partners may miss completely, continuing to make new offers. All of these are 'normal' misunderstandings across cultures which can wreak havoc with negotiation strategies and goals.

Cultural Differences That Affect Negotiations

Several aspects require careful study when preparing for an international negotiation. In this article, we will only be able to scratch the surface of a few of them. Five major aspects deserve closer scrutiny:

1. Negotiation Objectives

In the United States, negotiation objectives are often obvious as the interactions follow a logical, factual approach. Obtaining lower-cost goods or services, gaining access to technology or intellectual property, extending one's influence on markets through alliances, and so on, all share a common denominator: the underlying objective is near-to-mid-term business success as defined by the business' bottom line. Profit and growth are the ultimate motivators, and people are usually flexible and creative in finding ways to meet their objectives. Negotiators are prepared to 'slice and dice' the package of terms and conditions being negotiated, willing to make concessions if these help advance the negotiation as long as the overall value of the package still meets their objectives. Long-term aspects of a business relationship matter but play a secondary role. American businesspeople may not engage in an agreement if it holds long-term promise but does not offer an advantage in the near term.

Foreign negotiations can look quite different in contrast. For starters, long-term aspects of the engagement commonly weigh more heavily. Also, negotiators may have a less holistic view of the package being discussed. Let's say an Asian buyer is interested in buying equipment from an American company that requires extensive training and maintenance provisions. The initial negotiation may focus exclusively on the price of the equipment, in spite of efforts on the American side to use tradeoffs in training or maintenance cost to offset pricing concerns. The set of objectives on the Asian side may indeed include a specific price target, and they may not be willing to move on to negotiating other aspects before that target has been met. This sometimes becomes an issue of 'face', where not reaching their goal affects the self-esteem and reputation of the negotiators. Such a situation can become uncomfortably emotional for the American side.

Other factors may work to the advantage of a U.S. negotiator without them even realizing it. For example, entering a joint venture or other collaborative agreement with an American corporation can be quite prestigious for business leaders in certain countries. They will usually be smart enough to not reveal that aspect, but with careful preparation and with the help of others, you can identify this upfront and use it to your advantage.

Overall, it is important not to assume that the objectives of the foreign side will be identical with those you would expect in a domestic negotiation. Spending the time and effort to learn about them prior to engaging will give you a strong advantage.

2. The Importance of Relationships

While some form of a working relationship is required for negotiations in the U.S., it does not have to be extensive and can usually be established quickly. In most cases, evidence that you are a valid business partner and an indication that you are willing to negotiate in good faith suffice.

Successful negotiations abroad usually require a lot of up-front relationship building, which is why Americans often complain that international deal-making can be painfully slow. In most of the cultures in Asia, Europe, and Latin America, strong relationships are not only important to ensure proper execution of an agreement but are a prerequisite for entering into any formal or informal negotiations. To varying degrees, people will want to learn about your company background and capabilities, prior experiences, strategies and objectives, long-term plans, and so on. They also want to get to know you personally before they decide to trust you. In several cultures, people don't want to conduct business with you unless you convinced them that you are seeking a long-term engagement rather than just 'pursuing a deal.'

Several preparation steps are important. You'll want to formulate your long-term plan for the engagement, even if that means covering a longer timeframe that your normal business process might call for. Everyone understands that things change, so as long as you're willing to maintain a minimum level of consistency, don't fear that you'll find yourself 'locked in'. (Be prepared for people to track changes closely, though, especially in Japan.) Next, prepare extensive background information about yourself and your company. Especially in many Asian countries, people expect to get such information in the initial introductions.

If your interactions extend over a long time period, avoid changing team members. This applies not only to the primary negotiator, but to everyone interacting with the other party. Any changes in contacts mean that relationship-building may have to start over, slowing the progress.

Furthermore, realize that the definition of what constitutes a good relationship varies widely between cultures. In certain European countries such as the Nordics, the Netherlands, Germany, also in Israel, frank and direct exchanges indicate trust and a positive relationship, which is opposite to cultures such as China, where politeness and diplomacy are virtues and where there is little trust in 'objective' truths anyway. A puzzling fact in China may be that confidentiality is not a requirement of a trusting relationship, as many American companies have painfully experienced. Information is considered free and using it in one's best interest (which includes sharing it with other parties) is considered legitimate. Confidentiality agreements may not change that but will be read as signs of mistrust, hampering the relationship.

Lastly, it is important to know that the relative status of both sides can be different in a foreign culture. In the U.S., the seller-buyer relationship is usually one of near-equality. Successful transactions follow the principle of 'win-win', with both sides gaining something (e.g., a good or service) and giving something (e.g., money). In Japan and South Korea, to a lesser degree also in other Asian countries, the seller is hierarchically inferior to the buyer. Such a distribution of roles can make for an irritating experience to the foreigner. In Japan, a salesman is obliged to serve all of the buyer's needs and provide whichever information they request. The buyer, on the other hand, has a cultural responsibility to ensure that the seller still makes a profit from the business, but otherwise can manage the interaction with the seller in a way that may strike some Americans as almost dictatorial. Foreign companies not willing to accept this distribution of roles may get nowhere in their attempts to win business in Japan.

3. Decision Makers

A frequent source of frustration for Americans negotiating in certain Asian and Latin American countries is that they find it hard to get access to the decision maker, feeling that they are talking to the wrong person or group. Back home, identifying the key decision maker is usually easy and getting hold access to them can always be arranged as long as you have something of value to offer to them.

Accordingly, inexperienced negotiators in international situations may suspect that for some reason the 'right person' simply doesn't want to talk to them, thinking they are stuck with an intermediary with limited authority[2]. The reality may be quite different: a 'decision maker' in the American sense, i.e., a person with the authority and willingness to make a direct decision, may not exist at all. Decisions are made by groups in many cultures. 'The person at the top' still exists - organizations in these countries often have powerful leaders and clear hierarchies. However, the role of that person is not so much to make decisions themselves, but rather to orchestrate and manage the process of how group decisions are being made and implemented. Since group decisions require a series of interactions between all stakeholders to form opinions and establish consensus, they cannot be made right at the negotiation table. Sufficient time needs to be given between negotiation rounds for the group to go through iterations of the process and reach their conclusions. Gaining insight into this process is difficult, so it is pivotal to identify relevant members of the group making the decision in order to try to influence each of them in your favor.

In Europe and Latin America, only managers at the top or at least high up in the organization may have sufficient authority to make decisions. Except for matters of company-wide importance, they might not be available for the negotiation itself, relying on inputs from their middle management instead. That still gives you a chance to (indirectly) influence their decision.

4. Negotiation Techniques

People around the world are very creative when it comes to negotiating, bargaining, and haggling. Americans may be at a slight disadvantage in this field, since people in many other countries receive extensive negotiation training already as children, watching their parents bargain at the market or in a shop. Numerous negotiation techniques are used that would be considered unusual or exotic in America. Here are but a few examples.

a. Deception, False Demands, and False Concessions

While these may occasionally be encountered in the United States as well, people in certain foreign cultures tend to use them more forcefully. Pretending they are not at all interested in your business proposition is a way for an experienced negotiator to gain an advantage. A false demand, meaning that the other negotiator discovered something you want that they don't value highly, serves as a strong pressure point for you to make a major concession. False concessions, such as repeatedly lowering the (inflated) price without getting any reciprocal concession from you, may lead to feelings of guilt and stimulate you to give up something of value without receiving equivalent value in return. In all of these situations, it is important to recognize the technique. Once you do, you can either call the bluff (caution – this may disturb the relationship) or carefully outmaneuver your counterpart.

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[2] This is comparable to car-buying in the U.S., where '*I need to get my manager's approval*' is a standard negotiation trick in almost every salesperson's repertoire.

b. Extreme Openings

Starting a negotiation with an extreme demand is common practice is some Asian and Arab countries. There are two ways to counter the technique, the efficiency of which depends on the specific culture: either counter-bid at the extreme other end of the spectrum (if they ask a ridiculously high price, offer a ridiculously low one and smile), or state firmly that if they indeed believe the value of their product or service to be that high, then there is no common ground for any further discussion. Inevitably, you will be asked what you consider a more realistic.

Note that in some cultures, people will be irritated and may even be offended by extreme openings. An example is Sweden, where people expect you to start with a close-to-final offer.

c. Aggression and Strong Emotions

In the U.S., negotiations commonly follow a logical and factual flow. Emotions are being read as an indication of the process going astray. In many foreign countries, the use of aggression and strong emotions may be viewed a legitimate tactic. It is therefore wise not to let oneself be alarmed. If you continue to stay friendly and focused, the other side will quickly drop the tactic as ineffective.

d. Silence

The example in the introduction of this paper is interesting to analyze. In American 'cultural language', silence signals a negative response. Extended silence makes the message stronger. In Germany and in numerous other countries, silence does not carry much of a meaning. In the particular situation, the German manager may have been reflecting upon the price or thinking about something completely unrelated. Keep in mind that if the conversation takes place in English and if English is a foreign language for the other side, translation also takes time and may occupy the minds.

Foreign negotiators who previously gained negotiation experience with Americans may attempt to use silence against you. It is best to not read anything into breaks, even extended ones, in the conversation flow.

e. Best-Offer Pressure

'*This is my best offer*', stated in a negotiation in the U.S., usually means '*take it or leave it*'. When negotiating abroad, it may not mean that. Negotiators in some Asian countries are known to sometimes make a series of 'best' offers, each being a little better than the previous one. Be careful when using the phrase yourself – rather than understanding that this is your final word, the other side may mistake it for a tactic.

f. Time Pressure

Don't share your flight arrangements with your host when negotiating overseas. The Japanese and Chinese are particularly good at this: pretending to help you 'reconfirm your travels', what they really want to know is how much time you have budgeted for the negotiation. If, say, you are on a Wednesday morning return flight, they may spend most of the time on Monday and Tuesday making introductions, presenting the history of their company, discussing insignificant details of your proposal, and so on. You may not get to negotiate central parts of the agreement before late-afternoon on Tuesday, by which time you will be more likely to make concessions under time pressure. Most cultures prefer a more relaxed approach to the often-hurried U.S. style, making it easy for them to use your preference for quick and effective interactions against you. It is best always to let the other side know that you have plenty of time and will be able to change flight bookings if needed, even if that may not really be the case.

5. Reaching Closure

When approaching the final stages of an international negotiation, you'll need to carefully look for clues that the other side is ready to close. Too many variants exist to be discussed here, but just like in a negotiation back home, you will pay a price if you miss such signals. Realize that in several cultures, '*yes*' won't mean '*I agree*', but rather only signals '*I hear what you're saying.*' It does not convey consent.

How closure itself works again varies greatly. The good old handshake, still in use in America but normally accompanied by signing a contract, works well to confirm agreements in countries such as Brazil, most Arab countries, India, and many others. That does not mean that no written agreement should be prepared, but it is advisable to consider the handshake, rather than the signature, the critical step, while the paperwork becomes a mere formality. The other side might be alienated if you focus too much on the written contract, feeling that you don't trust their word. In Japan, a signed written agreement is not important. Once both sides clearly stated and spelled out their agreement orally and then put it in the meeting protocol, you can be assured that they will follow it to the letter. Generally, you should not bring a legal counsel to any international negotiations. Exceptions exist in a few countries if you hire a local one, but you are almost always better off by consulting legal specialists outside of the core negotiation exchange.

A final caveat is that closing an agreement and signing a contract may still not end the negotiation. In China and especially in South Korea, a contract is viewed a 'snapshot in time.' New demands may still be brought up later, so keep some maneuvering room.

Conclusions

Proper preparation for your international negotiation requires studying in-depth material about the target culture and/or engaging a coach who commands extensive knowledge of the country and its business practices. The five aspects described in this paper deserve particular attention, but there is much more that you need to know, such as customs and manners in the other culture, levels of formality, how to present information, and so on.

Successful international negotiators never engage without careful preparation. It is a pivotal step towards achieving your objectives and a very risky one to skip.

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