



Journal of Business & Industrial Marketing

Culture and negotiation strategy

Jeanne M. Brett,

Article information:

To cite this document:

Jeanne M. Brett, (2017) "Culture and negotiation strategy", Journal of Business & Industrial Marketing, Vol. 32 Issue: 4, pp. -, doi: 10.1108/JBIM-11-2015-0230

Permanent link to this document:

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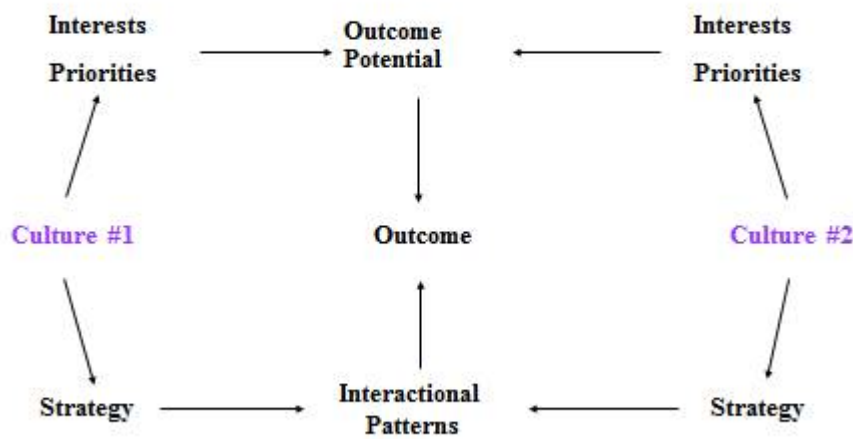
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Negotiating in a global environment benefits from a clear understanding of how negotiators' cultures influence their interests and priorities and the strategies they bring to the intercultural negotiation table. The model in Figure 1 represents these relationships.

(must get permission to reprint Figure 1 from Wiley)

Culture and Negotiation Strategy



Brett, *Negotiating Globally*, 20014

The model shows two negotiators from different cultures. Culture refers to the unique character of a group. When we are studying culture and negotiation strategy we often use national boundaries as cultural boundaries. Culture in this case is the values and norms and beliefs characteristic of the people from that nation and the political, economic, legal systems that provide structure of social interaction there. From a purely behavioral perspective, culture provides functional solutions to problems of social interaction. This means that people in different cultures resolve the problems of social interaction, for example negotiation, somewhat differently. You can find people using the same negotiation strategies in every culture, but the emphasis varies. People in different cultures rely primarily on different negotiation strategies.

“Rely primarily” translates into there is a cultural central tendency for use of negotiation strategy. By no means everyone in a culture follows the same norms or holds the same values or negotiates exactly the same way. Culture is not deterministic; there is variation around the cultural central tendency. This degree of variation is called cultural tightness-looseness (Gelfand et al, 2011). In tight cultures, there are strong social norms guiding interpersonal behavior, social monitoring of that behavior, and sanctioning of deviations. Cultural tightness reduces behavioral variation. Loose cultures have social norms, but in loose cultures conformity is up to the individual and there is a greater variety of behavior; improvisation is common in loose cultures.

Understanding the defining features of a culture is useful simply because those features describe what is normative in a culture. When you see behavior that is consistent with the central tendency, you can label it as cultural behavior. And when you label people’s behavior as cultural, even if from your own perspective that behavior is dysfunctional, you can understand that the behavior is deep-seated and will be difficult to change. In general, people from loose cultures will have an easier time and people from tight cultures will have a more difficult time adjusting to social interaction across cultural boundaries. But across cultures, culturally intelligent people – those who see others’ behaviors in cultural terms –work effectively with people from other cultures, because they respect cultural differences and develop creative ways of managing them (Ang, Van Dyne, Koh et al., 2007).

The model shows that negotiators’ cultures affect their interests and priorities and the strategies that they bring to the negotiation table. Interests refer to the reasons why negotiators take the positions they do. Interests answer the question, *why are you asking me for that?* Priorities refer to the relative importance to each negotiator of the different issues to be negotiated. Negotiation strategy is a set of goal-directed behaviors that people use when trying to reach agreement in negotiations. Just as people around the world solve the problem of greeting differently – some kiss, some bow, some shake hands, they also solve the problem of negotiating differently. To be an effective negotiator in a global environment requires knowing your own and having strategy to learn about the counterpart’s interests and priorities.

The outcome that is the core element of this model refers to a very special type of negotiated agreement - an integrative or interest-based agreement. This is an agreement that is the best possible given the parties’ different interests and priorities, because it incorporates trade-offs between their high and low priority issues and interests. In economics these high quality agreements are called Pareto optimal, meaning there is no other agreement that is better for one party without making the outcome worse for the other party. In contrast, suboptimal agreements mean that the agreement on the table can be improved upon for either or both parties. There are many reasons to try to negotiate integrative/interest-based/Pareto agreements. Among these are: there may actually be no agreement unless negotiators integrate their interests; why leave value on the negotiating table that neither

negotiator gets – which is what happens when negotiators reach suboptimal agreements; why not get more of what is more important and give more on what is less important - you are not going to get everything you want in any case, concede on what is less important; and why not facilitate implementation - when negotiators' interests are met, they are more likely to follow through on the agreement.

The challenge that negotiators face whether they are negotiating intra or interculturally is how to negotiate these high quality interest-based agreements. Research shows that around the world intracultural negotiators leave value and intercultural negotiators leave even more value on the table (Brett, 2014). The way to avoid leaving value is to find out about the counterpart's interests and priorities and trade them off against your own. There are three very effective ways to do this. The first is to learn about the counterpart's political legal, economic, social environment. The second is to ask. The third is to make multi-issue offers and draw inferences.

Ma and his colleagues (2015) in writing about negotiating effectively with Chinese outbound foreign direct investors (COFDI) illustrate how developments in the Chinese political, economic, and social environment provide insight into these investors' interests and priorities. What kick started Chinese outbound foreign direct investment? These commentators suggest taking a look at the Chinese government's "Go Out" economic policy, announced in 2000. They propose that the "Go Out" government policy made it possible for tiny Geely to acquire the financing it needed to acquire Volvo. The Chinese central government's recent initiatives in fighting corruption provide another environmental signal that helps to understand COFDIs interests. "Guanxi", the system of social networks and relationships that has long characterized business relationships in China, can all too easily turn into corrupt practices in which officials trade their power and access in return for personal financial gains. But, the Chinese central government's recent initiatives in fighting corruption mean that COFDI are looking globally for partners and acquisition targets whose reputations for honesty, integrity, and transparent dealing will enhance their own reputations.

Ma's description of how changes in government policy and regulations have affected Chinese outbound foreign direct investors' interests reveals the first way to learn about a counterpart's interests and priorities: Understand the environment in which they are operating in their home culture by studying economic policy statements and economic development plans, by reviewing legislation particularly concerning regulation. Research the recent history of foreign investment from news articles, from sources friendly to and in opposition to current government. Assessing interests and priorities from such sources then requires an inferential leap to understand the implications of a party's environment to their positions, interests, and priorities at the negotiation table.

A more direct approach is to ask the counterpart questions about interests and priorities when at the negotiation table:

- *Why are taking that position? What do you need? What does it give you that is important to you?*
- *What issue is more important to you?*
- *What is your top priority?*
- *Would you rather have me offer more on x or more on y?*
- *If I gave you what you are asking for on x can you give me what I want on y?*

A recent meta-analysis by Kong and colleagues (2011) suggests that this is an extremely efficient way to acquire information about the counterpart's interests and priorities that can be turned into

interests-based agreement. But its effectiveness depends on whether the counterpart is willing to reveal such information. Fundamentally, whether the counterpart reveals information about her interests and priorities depends on whether the counterpart trusts that the negotiator will use that information not to take advantage, but to further joint interests. This means that a negotiator needs to evaluate the trust environment before trying to use the strategy of asking and answering questions about counterpart's interests and priorities.

Culture is one clue to the trust environment (world values survey question on most people can be trusted). Trust in people and in institutions varies systematically with culture. In the context of negotiating agreements, we are primarily concerned about trust in people. (Trust in institutions is not irrelevant because it forms the backdrop for negotiations. Consider implications for disputes following a negotiated agreement in cultures where the rule of law is strong versus weak and the judiciary that enforces contracts is independent versus beholden to political interests.)

In loose Western cultures people with no prior relationship tend to engage in *swift trust*, that is, they trust each other unless and until one party's behavior betrays that trust (see Meyerson, Weick, & Kramer, 1996). But, the global norm of reciprocity means that if one party extends trust to the other, the other is likely to reciprocate. Such reciprocal behavior justifies and reinforces trust. In negotiations swift trust leads to direct information sharing about interests and priorities that can in the latter stages of negotiation be used to construct multi-issue offers that trade off interests and priorities and result in integrative agreements that leave little of value out of the agreement. This is often called the Q&A strategy (Gunia et al., 2011).

Swift trust is not characteristic of social interaction in other parts of the world. In Latin America, cultures tend to be rather loose, but interpersonal trust is low. To negotiate effectively in this context people engage in relationship building first. Once trust is established, they tend to engage in the Q&A strategy.

In the Middle East, South Asia, and East Asia cooperation in everyday social interaction is governed, not by interpersonal trust, but by cultural tightness (Brett, Gunia, Teucher, 2015 working paper). But the prevailing social norm for negotiation is competition, not cooperation, and negotiation using the questions and answers strategy described above is an unstructured social interaction (Yamagishi & Yamagishi, 1994). For all these reasons norms for cooperation do not generally prevail in negotiations for new business relationships in these parts of the world. People expect others to try to take advantage in negotiation. In response they negotiate defensively. Most will use many single issue offers and engage in substantiation, or attempts to influence the counterpart to concede using negative emotions, threats, new information, etc. This is often called the S&O strategy (Gunia, Brett, Nandkeolyar & Kamdar, 2011). Theoretically, it is possible to extract insight into the counterpart's interests and priorities from this information and create interests-based agreements (Pruitt, 1981). Negotiators make offers that are good for them; they substantiate offers that are important to them. There is critical information embedded in S&O, but the defensiveness and emotional negativity that tends to go along with S&O strategy makes it difficult for negotiators to engage in the rational analysis that would reveal the potential to trade off high and low priority issues and interests. Globally, the only cultural group for which there is evidence of this S&O strategy, generating insight and interest-based agreements is Japan (Adair, Okumura & Brett, 2001).

The option that is left for negotiators when trust is low is multiple issue offers (MIOs) used from the beginning of the negotiation. Multiple issue offers have some properties that provide momentum

toward negotiating interest-based agreements. They link all the issues in the negotiation and so build in tradeoffs. These tradeoffs capture differences in negotiators' interests and priorities. At the same time because MIOs incorporate all the issues they also protect negotiators' interests. In contrast to separating the negotiation into a series of single issue offers, MIOs mean the negotiator knows how much value he will get from an agreement based on the MIO. Negotiators using MIOs from the beginning of the negotiation start with an MIO that generates value for them. As they trade MIOs back and forth two things happen. First, they make concessions on issues of low interest or low priority and hold firm on issues of high interest and high priority. Second, they notice where the counterparty is making concessions and holding firm. Although this process of negotiating MIOs does not necessarily mean that negotiators are going to generate insight into the other's priorities, the information is there for the negotiator who is able to step back and see how the pattern of offers unfolds. Just as in single issue offers, negotiators do not make MIOs that are not good for them.

The Achilles heel of MIOs is anchoring and insufficient adjustment (Gunia et al., 2015). To use MIOs effectively to create interests based agreements with tradeoffs, counterparts need to avoid being anchored by the negotiator's opening MIO. What tends to happen is the counter offer comes in too close to the opening MIO, instead of reflecting an MIO that would thoroughly benefit the counterpart. When negotiators anchor on opening MIOs they are not likely to be able to use them effectively to capture all the tradeoffs possible in a negotiation situation. So far the research has only shown some Chinese negotiators using MIOs effectively (Zhang, Yao, Brett, Zhang, 2015 working paper).

The challenge of negotiating effectively in a global environment is how to acquire a clear understanding of negotiators' interests and priorities. Cultural differences in the use of negotiation strategy associated with interpersonal trust and cultural tightness-looseness make intercultural negotiations and even intracultural negotiations challenging. Three strategies to gain insight are to understand the counterpart's environment, to ask questions (and give answers yourself) about interests and priorities, if there is an environment of trust, and to use multi-issue offers and avoid anchoring. When negotiators' agreements trade off interests and priorities, they are more satisfied with the agreement because each gets more of what is more important, and so they are more likely to implement their part of the agreement. As more and more companies enter into global business arrangements, a simple understanding of how culture affects negotiation strategy, and how to use negotiation strategy effectively regardless of culture can mean the difference between no agreement, an agreement that neither party is really happy with, and an interest-based agreement that maximizes outcomes for both parties.

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