ASSESS, DON’T ASSUME:
PREPARING TO NEGOTIATE ACROSS BORDERS

JAMES K. SEBENIUS
HARVARD BUSINESS SCHOOL
SEPTEMBER 1999
Some negotiation advice applies universally despite the globalization of business: Be clear on exactly which parties are involved. Assess the full set of interests at stake, both yours and theirs. Estimate each side’s no-deal alternatives. Think through the role of time. Envision value-creating deals. Design agreements for sustainability. Choose a process that productively manages the tension between cooperation and conflict. And so forth.

Yet it may seem hard to apply this kind of straightforward dealmaking advice in unfamiliar national settings. Part of the perceived difficulty may be potential landmines of etiquette: on the way to "yes," should you Kiss, Bow, or Shake Hands?²

...a new engineering company [was] trying to break into the...Middle Eastern market. After spending several months negotiating a multi-million-dollar building contract, the company’s salesman presented a Saudi Arabian firm with its final proposal. The proposal was in a binder made of pigskin, considered vile in the eyes of most Moslems. The proposal and binder were burned, the salesman thrown out of the country and the...company...blacklisted from doing business there.³

A Silicon Valley corporate chief and some of his aides recently went to Asia to meet with a number of foreign officials. "We decided to show them the real us and go the way we show up in our offices everyday—baseball caps and T-shirts," he said... "Being American, I got right to it," the chief said, recalling his remarks at one luncheon. In his opening statement he said the host country’s President and Cabinet Ministers were inept. Upon reflection...⁴

Without greater cultural sensitivity than these hapless executives displayed, negotiators risk accidentally blowing up the deal, or, at a minimum, badly misreading the other side. Stacks of cross-cultural etiquette guides seek to ease this worry. A typical example dubiously promises to instruct its readers How to Negotiate Anything With Anyone Anywhere Around the World.⁵ But even if you never choose the wrong greeting, pick up the wrong utensil, or inadvertently make a gesture suggesting your host is a cuckold, are you ready to deal effectively across borders?

Obviously not. Etiquette concerns are only one level in a complex set of factors that can influence cross-border negotiating behavior. Knowing when to accept tea may matter, but often less than understanding the other side’s decision process, whether their focus is mainly on the deal or the relationship, and what the government policy is toward the kind of transaction in question. Yet beyond differences in surface behavior, and apart from the usual ingredients of preparation that apply to any negotiation, what distinctive factors should a cross-border dealmaker consider?

As a student of negotiation with a fair amount of international experience—but not as a cross-cultural specialist—I began to write this paper out of some frustration with the narrow behavioral focus of much published advice to international negotiators.⁶ As such, I seek to capture a wider range of relevant factors in a five-element framework together with a strong warning against common cross-cultural fallacies. I suggest sources of information on these elements. To make the general points more concrete, I use the example of an American preparing to negotiate in the People's Republic of China as a running illustration throughout the discussion.

One might reasonably question the premise that negotiating across national borders somehow systematically differs from negotiating within borders; put otherwise, is "cross-border" a meaningful distinction? To push the skeptical point, does anything systematically change when a New York City manufacturer negotiates with a supplier in Buffalo versus Hoboken? Not obviously; city limits and state lines are not usually central to negotiating strategy. But some differences might emerge when the same New York manufacturer deals with a Cajun supplier from Lafayette, Louisiana. But the New York-Louisiana deal could be at risk if either: 1) the New Yorker assumes the Cajun is a clone of himself, merely sporting a different accent, or 2) the New Yorker assumes that the Cajun is unalterably different but in (wrongly) stereotypical ways. Good general advice about the possible similarities or differences of negotiating counterpart—for the New Yorker or, more strongly, for the cross-border negotiator—is "Assess, don't assume." The framework developed below offers a set of categories for making that assessment together with some cautions about how to make it.

Overview: General and Negotiation-Specific Assessments. In the course of preparing to negotiate across a national border, you should start as you would for any negotiation—the parties, their interests, the no-deal options, opportunities for and barriers to creating and claiming value, etc.⁷ This preparation should be informed and modified by five factors that are grouped into two classes of potentially relevant cross-border assessments, the general and the negotiation-specific.
General Assessment

1. Learn about common expectations for surface behavior: etiquette, protocol, and deportment. A surface-level assessment informs one about local expectations concerning greetings, business cards, gift-giving, dress, punctuality, body language, table manners, and so forth.

2. Learn about deeper cultural characteristics. Below the surface are characteristics such as whether a culture is focused on the individual or the collective, the nature and importance of relationships, how personal space and the role of time are viewed, the extent to which authority and hierarchy are accepted, how ambiguity and risk are regarded, and so on.

Negotiation-Specific Assessment

3. Learn about expectations that are more specific to the negotiation process itself. Apply the general insights from the first part of your analysis to the specific negotiating context and develop them further. Is there a view that negotiation is a collaborative process aimed at mutual advantage or a competitive battle? Does one go to the specific issues early on or is there a lengthy process of relationship building first? Is the process formal or informal? Is communication direct or indirect? Are agreements constructed from general principles “down” or from specific provisions “up”? And so on.

4. Learn about the decision-making and governance processes you will seek to influence. Since you are typically seeking to cause an organization to agree with your proposal, what decision-making and governance processes are involved? Who has what decision rights? Is it a one-person authoritarian process? By consensus? A key subgroup? Formal? Informal?

5. Learn about the broader economic and political context for negotiation as well as salient “comparable” deals. Is there a government policy toward the kind of arrangements you are seeking to negotiate such as the requirement that the majority of a joint venture be owned by a local partner? Are high-tech deals particularly sought-after by the state? What recent deals by others, successful or not, will be salient in the minds of your local hosts and authorities when they contemplate yours? Does the political ethos favor state control or privatization? Does a wrenching political transition foster managerial uncertainty and decision paralysis?

The bulk of this essay elaborates this five-factor framework but with some very strong caveats. I’m tempted to elevate these caveats to sixth element of the framework but instead will treat them as cross-cutting advice: just as you should not be oblivious to culture, you should avoid cross-cultural fallacies. The last section of this paper elaborates the four cautions highlighted below:

1. The John Wayne v. Charlie Chan Fallacy: stereotyping national cultures: Don’t assume that nationality implies culture and that culture is monolithic. The variation within a national culture may be significant, often greater than the variation across different national cultures. And cultures can vary over time: China’s business culture of thirty years ago, let alone Singapore’s, is hardly today’s.

2. The Rosetta Stone Fallacy: overemphasizing national culture: National culture can be highly visible but is only one of many possible cultures (such as the professional cultures of financiers, diplomats, or engineers) and only one of many other possible influences on negotiated results (such as the economics of the business, competitors, personality, regulation, technology, etc.). Don’t assume that an assessment of national culture is the one complete key to understanding the other side and predicting its actions in a negotiation context.

3. The VFR at Night Fallacy: Falling prey to potent psychological biases in cross-cultural perception. Just as trying to pilot by “visual flight rules” (VFR) at night or in a storm is hazardous, the psychology of cross-cultural perception can be treacherous. Beware the witches brew of biases and psychological dynamics that can bubble up when one begins to label “other” groups, attribute characteristics to them, and act on these perceptions.
4. St. Augustine’s Fallacy: When in Rome, don’t necessarily try to do what (you think) the Romans do; there may be much better options. 

General Assessment

1. Familiarize yourself with etiquette, protocol, and deportment in general.

[A U.S. real estate] executive...and two others arrive on the Concorde as guests of a senior French banker with whom they want to do business. The French [banker]...fetches his guests by limousine and inquires politely about their journey. Slapping his host on the back, [the U.S. executive] drawls: “Waal, Pierre, I threw up on the way over. Your French food is jes’ too rich.”

Opening with rude informality and an insult to la belle cuisine are certainly among a wide class of etiquette mistakes to be avoided. If you turned to a popular and fairly typical cross-cultural guide for advice on other such faux pas, you would find the following:

Never touch a Malay on the top of the head, for that is where the soul resides. Never show the sole of your shoe to an Arab, for it is dirty and represents the bottom of the body, and never use your left hand in Muslim culture, for it is reserved for physical hygiene. Touch the side of your nose in Italy and it is a sign of distrust. Always look directly and intentiy into your French associate’s eye when making an important point. Direct eye contact in Southeast Asia, however, should be avoided until the relationship is firmly established...Your Mexican associate will want to embrace you at the end of a long, successful negotiation; so will your Central and Eastern European associates, who may give you a bear hug and kiss you three times on alternating cheeks. Americans often stand farther apart than their Latin and Arab associates but closer than their Asian associates. In the United States, people shake hands forcefully and enduringly; in Europe, a handshake is usually quick and to the point; in Asia, it is often rather limp. Laughter and giggling in the West Indies indicates humor; in Asia it more often indicates embarrassment and humility.

This stew of do’s and don’ts strikes me almost as self-parody. Although intending to be helpful, it inadvertently suggests how hard it can be to generalize about the specifics of surface behavior. And, even if one could somehow keep straight which rule applied to which situation in which country, the likelihood of regional variation and/or outright error sharply limits the value of such lists.
There is, however, a range of common questions whose answers are useful to know to operate more effectively in a culturally unfamiliar setting. In Box 1 below, I have distilled a set of such questions pertaining to surface behavior. These topics suggest behavioral expectations for outsiders; familiarity with them may also lessen possible misinterpretation of host behavior.

**Box 1**

<table>
<thead>
<tr>
<th>Greetings</th>
<th>How do people greet one another? What role do business cards play?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Degree of Formality</td>
<td>Will my counterparts expect me to dress and interact in a formal or informal way?</td>
</tr>
<tr>
<td>Gift-giving</td>
<td>Do business people exchange gifts? What gifts are appropriate? Any taboos?</td>
</tr>
<tr>
<td>Touching</td>
<td>Which parts of the body are public?</td>
</tr>
<tr>
<td>Eye Contact</td>
<td>Is direct eye contact polite?</td>
</tr>
<tr>
<td>Deportment</td>
<td>How should I hold myself? (Stiffly? Casually?)</td>
</tr>
<tr>
<td>Emotions</td>
<td>Is it rude, embarrassing, or normal to display emotions?</td>
</tr>
<tr>
<td>Eating</td>
<td>What are proper manners for eating?</td>
</tr>
<tr>
<td>Body Language</td>
<td>Are certain gestures or forms of body language rude?</td>
</tr>
<tr>
<td>Punctuality</td>
<td>Should I be punctual and expect my counterpart to be as well?</td>
</tr>
</tbody>
</table>

While not an exhaustive list, seeking answers to these questions, whether in books or through talking with people experienced in the culture at hand, will at least provide a degree of familiarity with basic do's and don'ts. Guides created specifically for business people in cross-cultural situations offer basic etiquette suggestions, generally divided by country or region. While some etiquette guides are better than others and all have limitations, they can provide very practical information and a sense of surface cultural character.
To make this advice more concrete, consider an American executive thinking about an upcoming trip to the People’s Republic of China to negotiate a joint venture. Glancing through the China sections of such guides would likely the following recommendations:

**Box 2**

<table>
<thead>
<tr>
<th>Greetings</th>
<th>Handshake or slight bow; handshakes increasingly prevalent, especially in business settings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Formal address (Mr., Ms., Director, etc.)</td>
</tr>
<tr>
<td>Formality</td>
<td>The Chinese prefer courtesy and formality</td>
</tr>
<tr>
<td>Gift Giving</td>
<td>Gift giving is accepted, although one should refrain from giving expensive gifts</td>
</tr>
<tr>
<td></td>
<td>Certain kinds of gifts are taboo, such as clocks and handkerchiefs; avoid certain colors such as white.</td>
</tr>
<tr>
<td>Directness</td>
<td>Avoid direct criticism. Negative sentiments are implied mostly through non-verbal cues; there is a hesitancy to say &quot;no&quot; bluntly.</td>
</tr>
<tr>
<td>Touching</td>
<td>The Chinese do not appreciate being touched. Touch should not go beyond a handshake. A slap on the back or a hug, for example, would not be appropriate</td>
</tr>
<tr>
<td>Eye Contact</td>
<td>Sustained eye contact is not polite</td>
</tr>
<tr>
<td>Deportment</td>
<td>One’s deportment should be relatively stiff and well-postured.</td>
</tr>
<tr>
<td>Displaying Emotion</td>
<td>The Chinese seldom display strong emotions and seem uncomfortable when foreigners do.</td>
</tr>
<tr>
<td>Silence</td>
<td>Depending on the context, silence is often a show of respect.</td>
</tr>
<tr>
<td>Eating</td>
<td>Never begin to eat or drink before your host.</td>
</tr>
<tr>
<td></td>
<td>When eating rice, hold the bowl close to your mouth.</td>
</tr>
<tr>
<td></td>
<td>Never take the last bit of food from the serving dish.</td>
</tr>
<tr>
<td>Body Language</td>
<td>Do not gesture wildly or point.</td>
</tr>
<tr>
<td></td>
<td>Do not move objects with your feet.</td>
</tr>
<tr>
<td></td>
<td>Do not cross your legs such that the sole of your shoe faces your Chinese host.</td>
</tr>
<tr>
<td>Punctuality</td>
<td>Punctuality in China is important, though you should expect to be kept waiting when you arrive for a meeting.</td>
</tr>
</tbody>
</table>

One naturally wonders if this advice is overly definitive. Will handshakes be welcome in rural settings? Are negotiators in freewheeling southern China as formal and oblique as their Northern compatriots? Consider a Chinese executive poring over a book that purported to describe American etiquette. Undoubtedly, the advice would overflow with inaccuracies, would miss regional variations and other subtle but important nuances present in any complex culture. In general, etiquette rules listed in books or even recommended by persons in the know should be taken only as general cues rather than strict edicts. Rarely can general advice substitute for sensitivity and careful observation.

Few doubt, however, that focusing on local etiquette can pay. For example, faced with an obstinate bureaucracy and an increasingly competitive market, GM took pains to ensure that an etiquette blunder did not add to its woes. When presenting Chinese officials with gifts from Tiffany’s, GM tactfully replaced Tiffany’s famed white ribbons (a color signifying death in China) with red ribbons (signifying good fortune). While savvy ribbon switches could not help a troubled GM China venture in any fundamental way, getting local etiquette right cannot hurt.12

DRAFT “Assess, Don’t Assume,” copyright © 1999 by James K. Sebenius. Do not cite or reproduce.
Another automotive example suggests that, more than lists of specific do's and don'ts, a respectful attitude of openness toward behavioral difference can go a long way. When AMC executives were involved in a pioneering joint venture in Beijing to manufacture Jeeps, they escorted several members of the Chinese delegation to show off a successful AMC joint venture in Cairo. At three o'clock in the morning, Tod Clare, head of AMC's international division, accompanied the Chinese delegation to the airport to say bon voyage, a gesture he observed his Chinese hosts undertake time and again. His sensitivity paid off:

For the next two years, every time [the Chinese delegation's leader] Chen Zutao gave a toast or banquet speech with Clare in the room, Chen would say, 'at three o'clock that morning in Egypt when Mr. Clare said good-bye to us at the airport, I knew we had a deal.'

You should not overemphasize the importance of rules of etiquette, protocol and deportment. Given the growing frequency of international interaction, a certain level of tolerance towards and even adaptation to difference is increasingly common. Depending on the situation, counterparts may readily forgive, and even expect, etiquette oversights. That said, sensitivity to etiquette basics allows negotiators opportunities to demonstrate respect, enhance camaraderie, and strengthen communication.

2. Learn about deeper cultural characteristics.

Some compare culture to an iceberg: what is visible on the surface is small compared to the massive underwater base. The danger of collision is not so much with the tip but, instead a deadly crash below the visible surface. The same can be said of culture: as people from different cultures interact, they may focus on readily apparent differences; but the real collision potential is often hidden. The second general assessment to prepare for cross-cultural negotiations, therefore, goes far below surface behavior and seeks to understand deeper cultural characteristics.

Below surface behavior, Swedish writer Selma Lagerlöf suggests that culture for the individual has two paradoxical characteristics:

1. It is learned.
2. It is forgotten.

If one learned as a child to be modest, self-effacing, deferential, and oriented to the group when interacting with other people—as is the case in many Asian cultures—it is easy to forget these admonitions at a conscious level and be shocked by the blunt, confident, individually assertive approach of some North American negotiators. Indeed, at individual and collective levels, a whole series of assumptions about expected and proper social behavior become embedded. They function as invisible norms that guide actions when we are in groups that share such assumptions. But when crossing borders, the odds increase greatly of encountering others whose unconscious assumptions clash with our own. The task of this section of the paper is to develop a series of categories that help us to make explicit that which is unconsciously assumed. Having brought these assumptions to the surface, we may assess them and build them into a much more self-aware and effective negotiating approach. Since culture is both learned and forgotten, effective negotiators must relearn and remember. In short: assess, don't assume.

The idea that such deeper traits can profoundly affect negotiation is not new. In an influential 1960 Harvard Business Review article, for example, anthropologist Edward T. Hall called for cultural sensitivity in international business interactions. Now widely regarded as the senior dean of cross-cultural communications specialists, Hall labeled culture the "silent language," warning that inattention to less apparent cultural norms posed a serious threat to the viability of American companies abroad, and to relations among nations more generally. In later works, Hall, joined by his wife Mildred Reed Hall, continued to study the impact of "silent culture" on business interactions both in general and in several different national settings.

The Halls' distinctive contribution perhaps lies less in their analysis of specific cultures than in the categories of characteristics they developed to heighten awareness of deeper cultural variables that may drive surface behavior. People in different national cultures may unconsciously exhibit very different behavior with respect to fundamental aspects of life such as relationships, information, space, and time. It can be of great value for the cross-border negotiator to self-consciously review her own assumptions about these basic qualities as well as asking about their manifestation in a less familiar culture. There are numerous sources, not least of which are
the Halls’ many works, for investigating these characteristics across cultures. Box 3 summarizes the main categories of the Halls’ analysis.

**Box 3**

<table>
<thead>
<tr>
<th>The ‘Silent Language’ of Edward T. Hall</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Relationships</strong></td>
</tr>
<tr>
<td><strong>Communication</strong></td>
</tr>
<tr>
<td><strong>Time</strong></td>
</tr>
<tr>
<td><strong>Space</strong></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>

The implied advice should be obvious: assess your target culture on (at least) these four dimensions, don’t implicitly assume that they are just like you.

**The Great Divide: Deal Focus v. Relationship Focus.** While there is a wide spectrum, a “great divide” looms between deal-focused and relationship-focused cultures. In deal-focused cultures, relationships grow more from deals while, in relationship-focused cultures, deals are seen as the implications of already-developed relationships. In relatively deal-focused locales (much of North America, Northern Europe, and Australia), relationships matter, of course, but the relational threshold for doing a deal can be far lower than in relationship-focused locales (much of Latin America, Southern Europe, South and Southeast Asia). Obviously, understanding this distinction for a given culture gives strong guidance as to where one puts one’s negotiating energies at the outset. Good questions to ask include:

- How deep must a relationship be to support productive business dealings?
- Is the concept of friendship reserved for the most intimate personal links or does it apply more superficially?
- How long does it take to establish trust?
- What are the obligations of friendship and more general expectations of reciprocity?

For our American going to negotiate in China, it would be important to know that business in China depends crucially on one’s guanxi, or set of connections and relationships important for introductions, credibility, and influence. Before business can be meaningfully done in China, a significant period of relationship-building is important.

**Communication: Direct v. Indirect.** In some cultures, information is conveyed directly, clearly, and even bluntly: “telling it like it is” with “no beating around the bush.” Meaning is largely self-contained, hence the Halls’ term “low-context” or little reliance on contextual cues. In other cultural settings, such as China, information is generally conveyed quite indirectly, with great reliance on shared contextual cues; these are “high-context” cultures. In general Chinese negotiators will rely on formal, reserved, and indirect communication with significant non-verbal elements. Richard Gesteland contrasts the difference between cultures even when the mutually spoken language is English:

A Dutch or German negotiator will choose his words carefully so that his counterparts will understand exactly what he is saying.... Meanwhile, his Arab, Japanese, or Indonesian counterparts are choosing their words even more carefully—but for a completely different reason...[so] no one at the meeting will be offended.... [N]o crude bluntness, no loss of face.... In relationship-focused, high-context cultures, directness and frankness are equated with immaturity and naiveté—perhaps even arrogance.... [O]nly children and childish adults make a practice of saying exactly what they mean. They just don’t know any better.  

Another informational distinction of potentially great importance has to do with the extent and nature of information required for comfortable decision-making. Many North Americans tend to prize concise, to-the-point information that cuts to the heart of the matter. By contrast, their Chinese counterparts may seem to have a virtually insatiable appetite for detailed data and may make multiple requests for closely related or even identical information. Good questions to ask include:
• In social or business interactions, is much of the essential information implicit and indirectly relayed with a high reliance on shared context for meaning ("high context" communication)?
• Or is information fully and directly conveyed with minimal reliance on tacitly shared factors ("low-context" communication)?
• What is the extent and nature of information required for decision-making?
• Is information guarded or shared within or among organizations?

Time: Monochronic v. Polychronic. In cultures, one often hears that "time is money" and an admonition to "get down to business." Punctuality and schedules are important and taken literally. Meeting agendas tend to be fixed and the focus is on "one thing at a time." This is a "monochronic" orientation which contrasts with a "polychronic" attitude toward the clock where time is much more fluid and interpersonal relationships take precedence over schedules. Deadlines are flexible and a combination of interruptions and multiple task-juggling is the norm.

Personal Space. The size of the invisible "bubble" of personal space surrounding a negotiator varies by culture, counterpart, and occasion. Invading personal space by moving too close or inappropriate touching (e.g., backslapping) can produce extreme discomfort, especially in relatively formal cultures. By contrast, the Swiss negotiator who instinctively backs away from his up-close Brazilian counterpart may inadvertently suggest disdain and unfriendliness. Good questions to ask include:

• How large or small is one’s personal space (invisible "bubble")? How does it correlate with “social distance”?
• How uncomfortable is a “violation” of one’s personal space or a perceived “distancing” of one person from another?
• Are closed spaces uncomfortable?
• Does physical space (e.g. large office) confer status?

Continue the example of an American going to negotiate in China who wanted to look beneath surface behavioral expectations for insight according to the Halls’ categories. Complementing the Halls’ focus on the "silent language" of culture—of relationships, information, space, and time—Geert Hofstede drew on surveys of more than 60,000 IBM employees in over 40 countries to develop four ‘dimensions’ of cultural differences. In his seminal study, Culture’s Consequences, Hofstede undertook perhaps the most comprehensive analysis of the impact of culture in the workplace to date that has formed the foundation for a body of scholarship—though it is not without detractors. The main dimensions Hofstede developed and their potential relevance to negotiation are outlined in Box 4 below:

Box 4

<table>
<thead>
<tr>
<th>Hofstede’s Cultural Dimensions*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Distribution</td>
</tr>
<tr>
<td>Are significant power disparities accepted? Or is the society more egalitarian?</td>
</tr>
<tr>
<td>Tolerance for Uncertainty</td>
</tr>
<tr>
<td>How comfortable are people with uncertainty or unstructured situations?</td>
</tr>
<tr>
<td>Individualism-Collectivism</td>
</tr>
<tr>
<td>Is society organized around individuals or the group?</td>
</tr>
<tr>
<td>Harmony-Assertion</td>
</tr>
<tr>
<td>Does the society emphasize interpersonal harmony or assertiveness?</td>
</tr>
</tbody>
</table>

* I have renamed some of Hofstede’s categories to communicate their essence more clearly.

Hofstede’s work has two main virtues in preparing for negotiation. First, the cultural characteristics he crystallized and highlighted are often important for cross-border negotiators. Second, his extensive empirical grounding makes it very easy to get a quick read of the central tendencies he found by country of interest. For example, according to Hofstede’s rankings, those from countries with high power disparity like Singapore and Malaysia are more comfortable with highly defined structures of more centralized authority. Hofstede found the Japanese and Guatemalans are extremely risk averse. The United States ranked highest on the independence scale, and relatively high as a country whose citizens display a competitive nature. See Table 1 for country/region rankings of these four characteristics.
Table 1 Rankings of (53) national/regional cultures using Hofstede’s classification

<table>
<thead>
<tr>
<th>Country</th>
<th>Power Distribution</th>
<th>Tolerance for Uncertainty</th>
<th>Individualism-Collectivism</th>
<th>Harmony-Accentuation</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(1=accept authority, 53=egalitarian)</td>
<td>(1=risk averse, 53=not risk averse)</td>
<td>(1=individualistic, 53=collectivist)</td>
<td>(1=seek harmony, 53=assertive)</td>
</tr>
<tr>
<td>Arab Countries</td>
<td>7</td>
<td>27</td>
<td>26</td>
<td>23</td>
</tr>
<tr>
<td>Argentina</td>
<td>35</td>
<td>12</td>
<td>22</td>
<td>20</td>
</tr>
<tr>
<td>Australia</td>
<td>43</td>
<td>37</td>
<td>2</td>
<td>16</td>
</tr>
<tr>
<td>Austria</td>
<td>53</td>
<td>24</td>
<td>18</td>
<td>2</td>
</tr>
<tr>
<td>Brazil</td>
<td>14</td>
<td>21</td>
<td>26</td>
<td>27</td>
</tr>
<tr>
<td>Chile</td>
<td>24</td>
<td>12</td>
<td>38</td>
<td>46</td>
</tr>
<tr>
<td>Columbia</td>
<td>17</td>
<td>20</td>
<td>49</td>
<td>11</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>43</td>
<td>12</td>
<td>46</td>
<td>48</td>
</tr>
<tr>
<td>Denmark</td>
<td>51</td>
<td>51</td>
<td>9</td>
<td>50</td>
</tr>
<tr>
<td>East Africa</td>
<td>22</td>
<td>36</td>
<td>34</td>
<td>39</td>
</tr>
<tr>
<td>Ecuador</td>
<td>8</td>
<td>28</td>
<td>52</td>
<td>13</td>
</tr>
<tr>
<td>France</td>
<td>15</td>
<td>12</td>
<td>10</td>
<td>35</td>
</tr>
<tr>
<td>Germany F.R.</td>
<td>43</td>
<td>29</td>
<td>15</td>
<td>9</td>
</tr>
<tr>
<td>Great Britain</td>
<td>43</td>
<td>47</td>
<td>3</td>
<td>9</td>
</tr>
<tr>
<td>Greece</td>
<td>27</td>
<td>1</td>
<td>30</td>
<td>18</td>
</tr>
<tr>
<td>Guatemala</td>
<td>3</td>
<td>3</td>
<td>53</td>
<td>43</td>
</tr>
<tr>
<td>Hong Kong</td>
<td>15</td>
<td>49</td>
<td>37</td>
<td>18</td>
</tr>
<tr>
<td>India</td>
<td>10</td>
<td>45</td>
<td>21</td>
<td>20</td>
</tr>
<tr>
<td>Indonesia</td>
<td>8</td>
<td>41</td>
<td>47</td>
<td>30</td>
</tr>
<tr>
<td>Iran</td>
<td>29</td>
<td>31</td>
<td>24</td>
<td>35</td>
</tr>
<tr>
<td>Ireland</td>
<td>49</td>
<td>47</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>Italy</td>
<td>34</td>
<td>23</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Jamaica</td>
<td>37</td>
<td>52</td>
<td>25</td>
<td>7</td>
</tr>
<tr>
<td>Japan</td>
<td>33</td>
<td>7</td>
<td>22</td>
<td>1</td>
</tr>
<tr>
<td>Malaysia</td>
<td>1</td>
<td>46</td>
<td>36</td>
<td>25</td>
</tr>
<tr>
<td>Mexico</td>
<td>6</td>
<td>18</td>
<td>32</td>
<td>6</td>
</tr>
<tr>
<td>Netherlands</td>
<td>40</td>
<td>35</td>
<td>4</td>
<td>51</td>
</tr>
<tr>
<td>New Zealand</td>
<td>50</td>
<td>40</td>
<td>6</td>
<td>17</td>
</tr>
<tr>
<td>Norway</td>
<td>47</td>
<td>38</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td>Pakistan</td>
<td>32</td>
<td>24</td>
<td>47</td>
<td>25</td>
</tr>
<tr>
<td>Panama</td>
<td>2</td>
<td>12</td>
<td>51</td>
<td>34</td>
</tr>
<tr>
<td>Peru</td>
<td>22</td>
<td>9</td>
<td>45</td>
<td>37</td>
</tr>
<tr>
<td>Philippines</td>
<td>3</td>
<td>44</td>
<td>31</td>
<td>11</td>
</tr>
<tr>
<td>Portugal</td>
<td>24</td>
<td>2</td>
<td>34</td>
<td>45</td>
</tr>
<tr>
<td>Singapore</td>
<td>13</td>
<td>53</td>
<td>40</td>
<td>28</td>
</tr>
<tr>
<td>South Africa</td>
<td>35</td>
<td>39</td>
<td>16</td>
<td>13</td>
</tr>
<tr>
<td>South Korea</td>
<td>27</td>
<td>16</td>
<td>44</td>
<td>41</td>
</tr>
<tr>
<td>Spain</td>
<td>31</td>
<td>12</td>
<td>20</td>
<td>37</td>
</tr>
<tr>
<td>Sweden</td>
<td>47</td>
<td>49</td>
<td>10</td>
<td>53</td>
</tr>
<tr>
<td>Switzerland</td>
<td>45</td>
<td>33</td>
<td>14</td>
<td>4</td>
</tr>
<tr>
<td>Taiwan</td>
<td>29</td>
<td>26</td>
<td>43</td>
<td>32</td>
</tr>
<tr>
<td>Thailand</td>
<td>22</td>
<td>30</td>
<td>40</td>
<td>44</td>
</tr>
<tr>
<td>Turkey</td>
<td>18</td>
<td>16</td>
<td>28</td>
<td>32</td>
</tr>
<tr>
<td>Uruguay</td>
<td>26</td>
<td>4</td>
<td>29</td>
<td>42</td>
</tr>
<tr>
<td>U.S.</td>
<td>38</td>
<td>43</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>Venezuela</td>
<td>5</td>
<td>21</td>
<td>50</td>
<td>3</td>
</tr>
<tr>
<td>West Africa</td>
<td>10</td>
<td>34</td>
<td>40</td>
<td>30</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>12</td>
<td>8</td>
<td>34</td>
<td>48</td>
</tr>
</tbody>
</table>

* I have renamed some of Hofstede's categories to communicate their essence more clearly.

In sum, an assessment of deeper cultural characteristics according to the dimensions highlighted by the Halls and Hofstede poses very useful questions about a target culture. The Hall-Hofstede dimensions obviously over-
lap and have direct implications both about etiquette as well as negotiation process expectations. Slightly rearranged and renamed, they provide useful categories for generating a broad cultural profile:

**Box 5**

<table>
<thead>
<tr>
<th>Social unit:</th>
<th>individual v. collective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power distribution:</td>
<td>relatively egalitarian v. acceptance of strong authority</td>
</tr>
<tr>
<td>Relationship importance:</td>
<td>deal-focus v. relationship-focus</td>
</tr>
<tr>
<td>Nature of Interaction</td>
<td>competitive/assertive v. cooperative/empathetic</td>
</tr>
<tr>
<td>Communication:</td>
<td>high-context, indirect communication v. low-context, direct communication</td>
</tr>
<tr>
<td>Tolerance for uncertainty:</td>
<td>high v. low; need for concise v. detailed information in decision-making</td>
</tr>
<tr>
<td>Time:</td>
<td>monochronic v. polychronic</td>
</tr>
<tr>
<td>Space:</td>
<td>preference for small v. large interpersonal distance in social settings</td>
</tr>
</tbody>
</table>

Imagine an encounter between two well-dressed, cell-phone-equipped business executives discussing a possible joint venture. Superficially, the two might appear to be very much on the same business page. Yet below the surface and behind the two regionally distinct versions of English could lurk some very potent, unspoken cultural dissonance. One might be focused on building the equivalent of a marriage while the other wanted to do this transaction and move on to the next, letting the executives from his firm who would share management responsibility worry about getting along with the "other side" as long as it made economic sense to do so. One might envision a joint problem-solving process while the other was willing to push very hard under the assumption that the first side would take care of its own interests. The two sides might be shocked to view their creation a year or two hence as the clashing assumptions surfaced around any number of operating and strategic issues.

The Halls and Hofstede are icons in the cross-cultural pantheon but their categories are not exhaustive and their analyses hardly limit the range and depth of cross-cultural scholarship. For example, other important issues include differential views of fairness and justice, how status is accorded (by accomplishment, knowledge, social position, age, etc.), whether people should seek to control nature or adapt to it, where boundaries are drawn between our public and private lives, cognitive style, sources of self-image and esteem, etc. Yet the Hofstede-Hall work is quite accessible while going much deeper than general etiquette guides; it provides a solid foundation for a more negotiation-specific assessment.

**Negotiation-Specific Assessment**

1. Learn about negotiation-specific process expectations.

The general cross-border assessments discussed so far, both of surface and deeper characteristics, must be made specific to the negotiation process itself. Some general aspects, such as expected levels of formality or display, translate directly to negotiation settings. Other aspects need to be more developed in the context of the negotiation process. In doing this, I have tried to create a checklist that is valuable to work through for any cross-border dealing, though it is by no means exhaustive. The categories are inspired by and partly taken directly from the work of Jeswald Salacuse, whose useful book, *Making Global Deals*, goes into greater detail. In order to make the categories more concrete, I superficially apply each to the case of a U.S. firm negotiating with a Chinese partner over a joint venture. For simplicity, I have artificially collapsed continuous ranges into either-or categories. First, I have posed each category's major choice in dichotomous terms (e.g. the importance of a contract v. relationship, whether a deal should be constructed from the "top down" v. the "bottom up," etc.) when the reality is more subtle. Second, I have described prototypes of U.S. and Chinese negotiators, riding roughshod over the wide variations by individual, region, type of business or profession, etc.
Fundamental Negotiation Objective: contract or relationship? Directly dealt with above as part of the "great divide," the real objective of negotiation can be seen in radically different terms across different cultures. In general, the greater and more prominent market institutions are, the more transactions among relative strangers are expected and seen as normal, and the lesser the "relational threshold" needs to be for many deals to be comfortable. It is not as if one or the other objective is exclusively seen as important; rather, in certain cultures, deals are seen as the implications of relationships while, in others, relationships grow from working in the context of an agreement. In general, U.S. negotiators tend to see the deal as the primary objective with a lower threshold for the relationship. Moreover, the precise written terms of the deal are of high importance. By contrast, the contract in China is only one step in a long, continuous relationship embedded in an important web of connections ("guanxi"); the specific terms of the deal matter, of course, but there is an expectation that they may well change with circumstances.

Fundamental View of the Negotiation Process: cooperative ("win-win") or competitive ("win-lose")? Many years ago, British diplomat Harold Nicolson distinguished between the negotiating orientation of some cultures, "shopkeepers," aimed at finding mutual advantage, with that of "warriors," which see negotiation simply as a quest for domination, "war by other means." In general, U.S. negotiators seek mutual advantage in deals but tend toward to more competitive in approach than many non-U.S. counterparts. For negotiators from the People's Republic, the stereotype is often seen as more cooperative in tandem with a relationship orientation, but the reality is more complex. While Chinese negotiators are often more cooperative with "insiders" or those in the group or those to come be seen as partners, they can be intense hardball players with perceived "outsiders."

"It's a formula," sighs Charlene Barshefsky, United States Trade Representative. A troop of dark-suited Chinese files into the negotiating room...Then the door closes and they stare balefully at their counterparts and begin The Lecture. China is special, it goes: once we were the Middle Kingdom; now we're the Big Kahuna of markets. If you want to do business here, you'll do it on our terms. Otherwise—well, there's always the Europeans and the Japanese. After years of living in China while participating in and gathering data on over thirty cases of negotiations with foreigners in China, French negotiation scholar Guy Olivier Faure documented the extent to which Chinese negotiators use "mobile warfare" against their foreign counterparts. Familiar techniques include physically isolating the foreign player in uncomfortable physical settings in faraway geographic regions, feigning indifference to a deal in a brinksmanship game of exacting concessions, dividing and conquering the Western team, using meticulous written records of the negotiation to exploit even minor inconsistencies displayed by the foreign group, randomly destabilizing the process, and so forth. Yet Faure cautions that "mobile warfare" is only one part of the negotiation process while a "joint quest for a common goal" for defining and solving the problem is another. This is ultimately more cooperative but based on Taoist principles.

Team Organization/Decision-Making: one leader v. group consensus? U.S. negotiating teams tend to be smaller than those from the People's Republic, with one U.S. member, the leader, having decision-making authority, at least within a fairly wide range. This implies that many decisions can be made relatively quickly. By contrast, individual Chinese rarely have independent authority to make decisions at the negotiating table. Instead, after forging a consensus among the negotiators, it is then necessary to gain bureaucratic approval. The result of this different approach can be a longer time frame for negotiation than that to which their U.S. counterparts may be accustomed. Moreover, if the U.S. team members assume that Chinese decision-making is a mirror of the U.S. process, the U.S. team may see sneaky tactics at work in the inexplicable delays encountered on seemingly minor items.

Formality level: high or low? The general characteristic carries over directly into negotiating behavior. For U.S. negotiators, friendships are often quickly established, at least on a superficial level. It is quite common to employ first names quickly in negotiation. By contrast, Chinese friendships are established cautiously and over a long period of time. Titles are important and family names are used ("Mr. Lee") as part of a proper form of address for some time, if not indefinitely in the negotiation process.

Communication style: direct or indirect? U.S. negotiators tend to prize clear and direct questions and answers. They generally value constructive criticism. Brainstorming and joint problem-solving are seen as desirable both within your team and with the other side when roadblocks are encountered. For Chinese counterparts, verbal communication is almost always framed as positive; public criticism of the other side is generally avoided. Negative sentiments are implied, mostly through non-verbal cues. Chinese negotiators hesitate to say "no" directly but prefer statements like "there may be difficulties with that proposal; we will have to study it carefully." Genuine brainstorming with the other side is uncontrollable, unpredictable, and risks taking directions on
more than the fumbling the decision of whether to kiss, bow, or shake hands. The first of these involves possible differences in the very way your counterpart's organization arrives at decisions such as a sustained "yes" or "no" to your proposal.

As is true at home, most of your negotiating counterparts will be part of and represent organizations. The organizational processes for making decisions as well as the rules and expectations for governance often differ dramatically by country. Diplomatic negotiations, for example, vary greatly depending on the type of home governments involved. A parliamentary system such as that in the U.K. or Canada ordinarily has a Prime Minister and Foreign Minister from the same party that has control in the legislative body or Parliament. Typically, that means that a deal reached with the Foreign Ministry will receive Parliamentary approval as a matter of course. A deal with the Foreign Minister means a deal with the country. Not so for those negotiating with a country such as the United States in which the Executive and Legislative branches are separate and may be controlled by different political parties. Those negotiating with the United States have come to learn, to their frequent regret, that a deal with the Executive (State Department) is only the first step in a process requiring Senate ratification. With experience of deals negotiated by the President failing to win ratification until renegotiated, some U.S. negotiating partners attempt to hold back in the initial negotiations, aware that the Senate may force the deal later to be renegotiated. At a more prosaic level, this ratification dynamic is similar to the everyday "manager in the back room" who must "approve" deals negotiated by salespeople in the showroom.

Differences in decision-making and governance can represent sources both of problems and opportunities in negotiation. The imperatives are 1) to understand and map the formal and informal process, and 2) to understand the negotiating implications of the motivations and central characteristics of the process. While this is good advice in general, it is of special importance in less familiar national settings where views of decision-making and governance imported from "home" experience may be deeply misleading guides.

2. Understand and map the decision-making and governance processes.

A negotiator in a familiar setting should almost instinctively map the decision-making and governance process of the other side(s): more specifically, the parties necessary to make a decision, the decision process itself, as well as the incentives and constraints of those involved. Then the negotiation approach can be tailored to the specific situation in a manner that maximizes the chances for success.

Parties with formal roles. In the course of negotiating with those who seem central to the process in less familiar settings, however, it is easy to overlook the full set of potentially involved parties. For example, a new M.D.-Ph.D.-MBA associate of Sierra Ventures, a San Francisco venture capital firm, was negotiating with the Director of the Institute for Protein Research in Russia near the time of the collapse of the Soviet Union. His firm was hoping to get the rights to an apparently revolutionary biotechnology discovery developed by the Institute. A marathon negotiation process with the Institute’s Director and his associates—bridging huge gaps between East and West, business, and science, bureaucracy and venture capital—finally approached an acceptable deal for both sides. However, near the apparent finish line, it suddenly become clear that several Moscow ministries, each with its own point of view and agenda, also had to approve the agreement, posing a potentially fatal set of obstacles that could have been anticipated earlier.

Involvement of parties other than the principals to the deal is common. In a U.S. context, for example, certain transactions entail participation by the Securities and Exchange Commission (SEC), the Federal Trade Commission (FTC), and Justice Department. When Traveler’s and Citicorp were even contemplating a merger, the heads of each firm, John Reed and Sanford Weill, together visited Federal Reserve Chairman Alan Greenspan to get a reading on the Fed’s likely attitude. Beyond these familiar processes, U.S. transactions involving significant non-U.S. ownership, for example, of airline or broadcasting companies can run up against legal obstacles requiring negotiation even in an otherwise relatively "free" market for corporate control. In many countries, it is routine to find the involvement of local concentration or anti-monopoly authorities, referral to commercial courts or stock exchange authorities, and foreign direct investment control agencies. In the European Union, various Brussels Commissions may become involved. And for transactions with targets that have foreign subsidiaries, the entanglement with a range of other players can be expected. Often regulatory participation implies an active negotiation over acceptable terms of the deal, not merely a passive submission for arms-length approval or turnaround.

The issue of who might potentially be involved in a cross-border deal can have unexpected answers. For those experienced in North American shareholder-based corporate governance, it may come as a surprise to
discover labor representation on supervisory boards of directors in Germany as part of that country's long-standing policy of "codetermination." It will probably be less surprising, though no less disconcerting, to discover a local Party official as an integral part of a Chinese negotiating team in the People's Republic—even though the issue involves a joint venture between the Canadian corporation and the nominally "private" Chinese firm.

It follows from the involvement of different players—anti-monopoly agencies, political parties, local or regional governments, labor, etc.—that another set of interests will be brought to bear on the process, as well as varying potential to block or foster the negotiation. It then becomes a matter of negotiating strategy and tactics on how to handle this richer set of parties and interests. Should the basic deal between "principals" be done first, and then attempt to bring the others on board? Should accommodation with the special interests of other players be reached and then built into the basic deal? Can these "other" parties be overridden or ultimately ignored? The answers to these questions depends on the particulars, but anticipating a possibly unfamiliar set of players is the first step toward a strategy.

**Decision rights and governance.** In short, it is important to understand precisely which parties have a legal or other formal mandate for involvement as well as their roles in the negotiation. While ordinary business and legal preparation should make the range of likely involved players evident, special care should also be taken in cross-border cases to understand what decisions can be made by which players. Failing to properly analyze decision rights, governance, and motivations in relatively unfamiliar cross-border situations can be very costly.

For example, when Pirelli, the Italian tiremaker, sought to take over its German rival, Continental Gummiwerke, it was able to acquire 51% of Continental's shares and lease the tacit backing of Deutschemark. In a U.S. context, for example, this would normally be adequate to control the target. Unfortunately for Pirelli, German corporate governance provides a structure in which even a majority of shareholders can be effectively blocked unless the support of other players is obtained. Four sets of players are potentially key to major decisions: the shareholders, the supervisory board, labor, and the executive board.²⁶ First, the shareholders at large act by way of a General Meeting to elect members to a "supervisory board," typically for a four-year term. For large German enterprises, a supervisory board can be dismissed only by a three-quarters majority of the voting capital. But since most German firms are subject to union "codetermination," labor elects half the members of the supervisory board. Now, the supervisory board elects the management or executive board (the "Vorstand"). However, the supervisory board cannot dismiss the Vorstand without the support of its labor members.

Not only does the Vorstand exercise day-to-day management of the firm, but it is usually given the right to decide whether to recognize voting rights of new shareholders of ordinary shares, that is to register shares in the company sharebook. And the Vorstand has extremely wide discretion in deciding whether to register shares. Thus, without the Vorstand's agreement, even acquiring a majority of Continental's shares did not suffice for Pirelli to gain control of its target. Ultimately, the Italian firm suffered a humiliating defeat, losing nearly half a billion dollars in the process.

Since 1945, there have been only a handful of hostile takeovers in what has widely been known in financial circles as "fortress Germany," much lower levels of merger activity have taken place there than in the UK or the US.²⁷ Some of these battles, such as Pirelli's abortive effort to take over Continental, have become notorious. In a less widely noted episode, Michel Albert, until 1994 the Chairman of Assurances Generales de France (AGF), the second-largest insurance company in that country, attempted in 1990 to negotiate an initially friendly expansion into Germany with the second-largest insurer there, the Aachener und Munchener Beteiligung (AMB). While AGF eventually bought a third of AMB's shares, the process was immensely frustrating and ultimately unsuccessful in terms of AGF's strategic intent. As Albert himself implied in his 1993 Capitalism Against Capitalism, such negotiations must surmount formidable differences in corporate governance and political economy:

> The modern nemesis of long-term management, the takeover bid, is virtually unknown in Japan, Switzerland and Germany. Approximately a third of German companies issue registered shares which may not be sold or transferred without the express authorization of the company. What is more, the board of directors (in its capacity as legal representative of the firm) may in some cases withhold its reasons for turning down a share-transfer request. This prerogative is a highly effective delaying tactic: you have no vote and no right to join in an increase in capital as long as the share transfer has not been approved by the company in question.²⁸
Of course, takeover bids, especially those that become hostile, typically stimulate an especially aggressive form of negotiation. There are some impressive examples of executives deftly navigating those potential barriers, and rapid change in governance is taking place in regions such as the European Union.39 However, the broader point underlined by Albert involves how differences in governance affects players, decision rights, and the likely composition of winning and blocking coalitions in cross-border dealmaking.

Consider the case of Honda, Rover, BMW, and British Aerospace (BAe). Honda first worked out a limited licensing agreement with the troubled British automaker Rover in 1979. Gradually the relationship expanded to a much fuller joint venture with Rover, ultimately involving significant cross-shareholdings. Honda played a dominant role in the relationship, with Rover production and management practices coming over time to be very "Japanese." A strong positive relationship among the workers and management at both firms developed and Rover became far more efficient, though still losing money and requiring significant ongoing investment. This relationship continued to intensify even when the British government sold the majority of Rover's shares to British Aerospace in 1988, which was seeking to diversify out of its main defense business.

By the early 1990s, though, Rover still required capital infusions and BAe, as the holding company, determined to divest. Although Honda declined to increase its ownership position in Rover, the Japanese firm was dumbfounded and outraged to learn that BAe had sold its Rover stake to BMW. This was a "sting of Paul Newman proportions." In Honda's eyes, the relationship with Rover was a long-term one, very much like a marriage. It was virtually inconceivable that BAe could sell.

For Honda and much of Rover, failure to understand the situation felt disastrous. For BAe, in a cold-blooded sense, Honda's cultural blinders offered a major economic opportunity. Bottom line: understanding both formal decision rights and motivations in less familiar settings can be vital. In short, assess, don't assume.

Poor U.S. legal advice to Bernard Arnault's French luxury conglomerate LVMH— that New York Stock Exchange traded companies could not increase their share base by a significant amount without shareholder approval—led it to acquire almost 35% of Gucci in a takeover bid.40 For non-U.S.-based firms like Netherlands-chartered, Florence-headquartered Gucci, that also traded in New York, however, different stock exchange rules on equity issues applied. As the Gucci defense team came to understand the legal situation more clearly, this loophole was used to blow up LVMH's strategy; Gucci first issued 20% new shares to its employees in an ESOP-like transaction and then 42% further new shares were issued to a group controlled by Francois Pinault, Arnault's French rival. LVMH's massively diluted position effectively handed victory to Pinault and left LVMH's investment effectively trapped as a relatively powerless minority shareholder in Gucci.

The Honda-Rover and Gucci examples make clear that cross-border deals must take account not only of the parties that have legal standing to become involved but the classes of decisions that can or cannot be made by different players. Obviously, the old admonition to "read the fine print" applies in virtually all dealmaking; yet it can be much more difficult, but just as important, to do in less familiar, cross-border settings.

The informal negotiation. It is quite normal in many contexts to assume that the negotiation will mainly take place between the parties who will ultimately sign a contract or make a deal. Certain approvals, such as those of principal customers, are often required where there is a change of control. So far the story is familiar in most places. Yet in many settings, an informal negotiation often envelops the formal one; it pays to be aware of this potential process in which you may become inadvertently embedded.

For example, negotiators in Japan need to pay attention to the large industrial/financial groups, the keiretsu, that are linked by a dense web of business ties and cross-shareholdings. Even though the companies have independent identities, knowledge of the broader relationships and their implications can be critical. Similarly, in the German financial sector, giant Allianz is sometimes referred to as "the spider in the web" as a result of its widespread decision-making influence in that sector. In Italy, the role of powerful families and companies, the salotto buono ("good drawing room") in economic decision-making would be ignored at one's peril in much apparently unrelated dealmaking. And there may be a more sinister side, such as the role of the Russian mafia and other "protection/Extortion" rackets.

Even where these kind of fixed but informal webs of influence are not particularly important, the de facto negotiating process may come to include a range of other players. For example, the U.S. Stone Container Corporation was negotiating the terms of a major forest project in Honduras, a poor Central American country that had only recently democratized and had a long history of strained relationships with the U.S. government.
and U.S. multinationals. Formally, the deal had to be done with the Honduran President and his relevant ministries. As Jerry Freeman, the responsible Stone executive explained:

We were down there dealing with who we thought had the power, the responsibility, the authority. Connected with that was their Forest Service, who had the scientific background. So, we had the science and they were going to be the quality control on the program that we did. 41

This clean, if legally correct view, however, was naïve. Inadvertently, Stone’s proposal and negotiating strategy triggered the involvement of the Honduran Congress, labor unions, political parties, potential business competitors, indigenous people in the affected region, as well as domestic and international environmental groups. In spite of ultimately what was arguably a very valuable project—relative to the likely alternatives—for virtually all concerned, Stone became enmeshed in a complex, multiparty process. Colorfully, Freeman later lamented “We were caught in a drive-by shooting with no place to hide.” 42 An assessment of Honduran history vis-à-vis U.S. corporations in natural resource projects together with the fragile status of the Presidency would almost certainly have pointed the way to a likely potent informal process of which Stone needed to take account—and which held considerable promise of success if anticipated.

In other settings, it is quite common for negotiators from countries with relatively strong legal systems to count on the foreign equivalent to enforce formal contracts. This partly underlies the well-known tendency of U.S. negotiators to seek lengthy and detailed agreements. By analogy to Stone Container’s view of the formal Executive Branch in Honduras, the common North American expectation that a formal judicial process that will discipline negotiations over compliance or demands for renegotiation can be a bad misreading of the reality. Some countries, such as Japan, have relatively small legal systems and few lawyers, instead relying on relationships and negotiation to sort through most commercial disputes. Present-day Russia has practically no functioning judiciary. Other legal systems, of course, are corrupt or under the control of local political powers. It can be a costly error to assume the equivalent of one’s home legal system, rather than to assess both the formal and informal realities.

There can be a great gulf between laws on the books and how things really work. In part, this underlies the discussion above on the distinctions between contracts and relationships. But it extends further, as the following Chinese example illustrates:

When executives at a US electrical goods manufacturer hired a local manager to run their Chinese operations, they thought they had been rather clever: no language problems and no labor difficulties. However, when the head office tried to expand the product line, it received a shock. The Chinese general manager categorically refused to follow orders. There is no demand, he said. Eager to keep matters on a civil footing, the US company tried peaceful negotiation. The general manager would not budge. He was fired but still he would not go. The executives went to the local labor bureau, which refused to back them up.

Exasperated, the executives tried to dissolve the joint venture and start again. But attempts to recover the registered capital were thwarted when the local partner refused to agree to the move (approval of both sides is necessary under Chinese law). A foreign law firm was hired at great expense but it had no success. In desperation, the US company hired a local law firm. By “negotiating” with the local bank officials, the Chinese law firm overturned the need for dual approval. 43

In short, a first step should be to map the decision-making and governance processes of those who are likely to become part of the negotiation. 44 This involves the parties with a legal claim or mandate for involvement and may, in cross-border settings, include unexpected players. Then it is critical to know what decisions can be made by what parties. Finally, informal relationships and parties who may become involved in the informal process must be mapped. Locally knowledgeable help is obviously vital in carrying out these assessments of the process, formal and informal as well as precise decision rights.

2. Understand the negotiation implications of central characteristics of different decision-making and governance processes.

Different decision-making and governance processes call for different negotiation approaches. Several processes are particularly common: the Boss, ratification, consensus, and coalition-building.

DRAFT "Assess, Don’t Assume," copyright © 1999 by James K. Sebenius. Do not cite or reproduce. 18
The Real Boss and Ratification. If your assessment reveals that there really is a Boss who does not meaningfully delegate, then your negotiations should always be aimed, directly or indirectly, at that person. When there is the local equivalent of a very-much-in-charge Admiral Rickover, a Harold Geneen, or a Robert Moses, be careful of revealing key information or making vital concessions prematurely to those not genuinely in the loop. It is hazardous to make "deals" with relatively powerless agents who can function as important messengers or emissaries but not as powers in their own right. Often your energies are best directed at finding a legitimate means of direct interaction with the Boss. In some cases, this means focusing on those outside the process who can powerfully influence the Boss. Even where there is no such Boss, you should be very clear up front on the need for any further ratifications or approvals. Having made an apparently "final" stretch to do a deal, if several more stages of the process suddenly materialize, the cost and risk involved rise correspondingly.

By the same token, be careful not to impute omnipotence even to apparently "powerful" bosses; doing this might be called the "hierarchical fantasy." Stone Container wrongly assumed that a deal with the President of Honduras was sufficient to ensure success. This is not a problem limited to less developed countries; others, whether the Shah of Iran or South Vietnamese leadership, have made deals or reached critical understandings with U.S. Presidents that could not be realized as they expected given effective limits on Presidential power. And even in one-party, relatively authoritarian countries, deals at the top may not translate into action on the ground.

The case of Armand Hammer's protracted negotiations to form, and later manage a joint venture between Hammer's Occidental Petroleum (Oxy) and the State-run China National Coal Development Corporation (CNCDC) in the 1980s provides an illustration of how even the highest-level backing can be insufficient. After the first year of preliminary negotiations, progress was minimal; it seemed the deal was destined to fall apart. But Hammer and China's then-paramount leader Deng Xiaoping, who met personally on numerous occasions, became determined that the deal go through. Hammer saw the project as a crowning achievement of his career: the largest-scale foreign investment in China in history. For his part, Deng was anxious to show the world that his market reforms were transforming China into an economy ripe for investment. Subordinates on both sides were ordered to reach agreement. The Oxy-CNCDC project became a test-case that had all eyes watching. Yet, for reasons of bureaucratic conflict, clashing expectations and interpretations, and escalating antagonisms, the formal negotiations dragged on for years and Oxy ultimately pulled out after more than a decade of frustration.

Consensus. At the other end of the decision-making spectrum, especially common in Asia, is the custom or requirement of reaching consensus before agreement can be finalized. The consensus sometimes needs to be forged among the members of the other side's negotiating team; sometimes the need extends to the broader enterprise. Often a two-step process is required for Chinese enterprises: first consensus within the enterprise, then consensus within the relevant government entities. And many hybrid forms exist.

Example: Three Gorges Dam Project. For over 70 years, the Chinese debated constructing a dam in the Three Gorges section of the Yangtze River. Since the idea took root, foreign groups were eager to participate in what will be, if ultimately built, the largest dam in history with a reservoir the size of Singapore. The United States first took interest in the project in 1944 when the U.S. Bureau of Reclamation made initial recommendations regarding the Three Gorges site. Not until the early 1980s, however, did U.S. firms began to develop feasibility studies and construction plans in earnest, following China's State Council's beleaguered approval for the project. Following this cue, a U.S. consortium (Bechtel, Coopers and Lybrand, Merrill Lynch, the Morgan bank, the Bureau of Reclamation, and others) sent a proposal for technical and financial assistance to the Chinese in July 1985. The proposal boasted independent management, a lean work force, cost effectiveness and speedy completion.

Though a winner from a Western perspective, however, this formula did not resonate at all in the Chinese bureaucratic landscape. For example the proposal envisioned foreigners carrying out their role with little interference from or interaction with territorial/local authorities, whereas Chinese gatekeepers, especially territorial, have a keen desire to be actively incorporated into process. The proposal highlighted the use of state-of-the-art efficient machinery and a lean labor force whereas employment maximization was a Chinese goal. The proposal used rigorous cost-benefit analysis whereas the Chinese view of such complex calculations was suspicion of manipulation. Had it stood back and surveyed what parts of a proposal might resonate with Chinese involved in the process, the U.S. group might have placed greater stress on elements such as technology transfer, training, and foreign investment, rather than cost-cutting and speed.

More important that the substance of the proposal is the role of the Chinese decision process in this very complex example. In this vein, the U.S. group might have better anticipated the number of actors directly af-
ected by the building of the dam. The U.S. consortium dealt primarily with only one Chinese agency, the Yangtze Valley Planning Office (YVPO), but failed to adequately understand the breadth of the multi-fibered web in which the YVPO operated. Had the Team been better aware of this web outside those directly involved with approving the plan, it might have anticipated enemies, and even more importantly, incorporated allies to back its plan.

In China, rankings among bureaucratic units are explicitly defined. But because no one ministry, province or other bureaucratic unit has authority over another of the same rank, none can issue commands or exert authority alone; permission from above is required. The consequence, as China scholar Kenneth Lieberthal explains, is that contested decisions are pushed up to the very highest authority possible. The result is an overload at the highest levels of the bureaucracy. The only practical solution given this situation has become a cornerstone of the modern Chinese bureaucracy: consensus. In order to move processes along, each affected unit must engage in complex bargaining system to establish compatible goals and protect interests. Had the U.S. group understood the necessity for collaborative decision making, it might have changed its strategy considerably, insisting less on independence from territorial and local authorities, and instead choosing instead to work with as many units as possible to center consensus around its plan. This massive example involves a much wider set of economic and political considerations than space permits but, for our purposes, suggests more effective elements of dealing with a consensus process in negotiation.

Implications of negotiating "into" a consensus process. One normal consequence of dealing with a consensus approach is a much longer time-horizon than is the case when a single decision-maker calls the shots. When a negotiator from a decisive, Boss-centered culture confronts a consensus process, the potential for misunderstanding and frustration can increase dramatically.

The need for consensus on the other side should affect your negotiating strategy in several ways. First, consensus cultures are often relationship-focused rather than deal-focused; thus they will likely have a time-consuming desire to learn about you and forge a deeper relationship before getting into a dealmaking process. Such a relationship is not only critical to the deal but also to making it work later. Second, realizing that consensus processes often go hand-in-hand with near-inexhaustible needs for information, you should be prepared to provide it—in many different forms, at a high level of detail, and repeatedly. Third, to the extent that you can pinpoint the source of delay—usually the doubts of specific people or units—you can design your approach to help the other side convert its doubters, by giving them good data and reasons to solve that internal problem. Pinpointing the source of delay essentially means a concerted effort to understand the interests and perceptions of a wider set of players on the other side—as a means of reframing your approach to bring help them on board. Fourth, at a minimum, your own expectations should be adjusted to take their time requirements into account for this process to work; there is often very little you can do to speed it up unless they are desperate for a deal with you (which usually means the consensus is already there). One forcing mechanism that can be effective, however, is parallel negotiations with a competitor of theirs, providing that there is a real basis for a deal there.

If you are getting into this kind of process, you should almost always negotiate a very clear understanding with your own headquarters, backed by credible examples, of the likely time frame required in this foreign setting. Failure to negotiate realistic expectations on your side can lead you into a bargaining vise, with headquarters pressuring you for results (“after all this time”) and the relaxed other side exploiting your own side’s impatience to squeeze further concessions from you. Caught in the middle, you may see no good choices: either walk away (raising lots of questions about your effectiveness and wasted resources) or make major concessions (diluting the value of any deal). Prevention via expectation-setting and continuous communication at home is a much better prospect. And, if your judgment suggests that your side simply cannot handle a year-long negotiation process, for example, you may be better off avoiding the process.

With some bitterness, American trade negotiators dealing with seemingly immovable Japanese counterparts have often puzzled over the following problem: “before the Japanese have reached a consensus, they can’t negotiate; after consensus is attained on the other side, there is nothing to negotiate.” One approach to this conundrum is to shift your focus away from the bargaining table and seek to interact with the other side extensively and informally while they are going about reaching a position. Your objective is to get your interests, point of view, and plans incorporated into their consensus process. If you wait to do this until you are at the bargaining table, you will have to pry open their now-fixed position. As John Graham and Yoshihiro Sano explain, “in Japan, what goes on at the negotiation table is really a ritual approval of what has already been decided before through numerous individual conversations in restaurants, bath houses, and offices. In Japan, the negotiating table is not a place for changing minds. Persuasive appeals are not appropriate or effectual.” Often this requires a near-
collusion between you and their bargaining team, in which you make such a public fuss that their team returns with a powerful argument to reopen their process.

As frustrating as the need for consensus may be to those from faster-moving cultures, there can be offsetting advantages. Having painfully worked out the full set of issues throughout the organization, the permanence of the ultimate decision and its implementation may be faster and far more assured than for agreements made in a top-down fashion.

Apart from implementation, there can be tactical advantages to the other side's commitment to a coalition process. In one case, an American firm negotiated for two long years with a major Japanese company to create a large-scale joint venture under Japanese control. In effect, this represented a sale of about two-thirds of the U.S. firm, permitting it to concentrate on what it felt to be another business line with higher potential. During this excruciatingly detailed, two-year process, the negotiations stopped several times as a function of what the Japanese negotiators described as the breakdown of its consensus process. Each time, however, the Japanese resumed negotiations with a stronger and stronger consensus on the central role of the deal to its long-term global strategy.

When a European firm unexpectedly made a tender offer for the entire American business, the Japanese firm had to decide whether to drop out of the process or seek to acquire the whole firm. Without a positive decision from the Japanese firm to go forward, negotiators for the American firm were able to leverage the nearly irresistible organizational momentum in the Japanese entity that had built up over two years of mentally integrating the U.S. operations into its long-term strategy. Rather than face the extreme internal organizational costs of "losing," the Japanese firm was willing to pay an extraordinarily high amount for the firm, far more than would have been the case absent the frustratingly lengthy consensus process. One American negotiator described how, in effect, the Japanese entity had "fallen in love" over time with its target...and paid accordingly. The high price, however, would not have been likely had the U.S. negotiators thought of the transaction in conventional valuation terms. Instead, the other side's consensus process, if clearly recognized by the U.S. side, was used extend the bargaining range well beyond what would otherwise have been justifiable.

In short, you should not be blindsided by the need for consensus. Coming with it can be unexpected requirements for time, relationship-building, and information. Dealing with a consensus process effectively requires facilitating it while doing what you can—with real external deadlines and competitors—to speed it up. Realistic expectation-setting, particularly on your own side, can save you from unnecessary frustration and a major squeeze. And there can be offsetting benefits to dealing with a consensus process, both tactically and for implementation.

More general processes: winning and blocking coalitions. Decision processes rarely come in pure forms such as authority or consensus. Ultimately, success requires a sufficient set of players, a "winning coalition," to say "yes". At the same time, success requires an approach that keeps those opposed to a deal from stopping the proposal by means of a "blocking coalition." When Stone Container sought a deal with the Honduran President, it turned out that a much wider group of opponents—in and out of government, domestic and international—was energized into a successful blocking coalition. Similarly, Armand Hammer's agreement with Deng Xiaoping foundered on the rocks of bureaucratic and political opposition. By failing to win over Continental's all-important Vorstand in its takeover foray into Germany, Pirelli left a blocking entity in control. The broader question turns on what will be the likely interests and options of the players who will be needed as allies in a winning coalition or who may seek to form a blocking entity. Governance processes often drive these considerations.

Surface and deeper issues of national culture can matter as can negotiation-specific process expectations. But the core point remains: successful strategies also map the decision and governance process and take it into account whether it involves authoritative choice, ratification, consensus, coalition, or a hybrid of these methods.

5. Learn about the broader economic and political context for negotiation as well as salient "comparable" deals.

Specific deals are negotiated in broader economic, political, and legal contexts, which can vary as you cross borders. Ordinary legal and regulatory advice by locally knowledgeable counsel is clearly critical to undertaking significant negotiations. Knowing that investments in China greater than $30 million require central government approval—and that this process can take up to two years—should obviously be part of your baseline due
diligence. But beyond garden-variety advice on learning the laws and regulations in your target country and locale, what elements of context are critical for effective negotiation preparation?

**Salient “comparable” or contemporary deals.** You should seek to understand the kinds of deals that may well be on your host’s mind as it contemplates your proposal. By thinking about broadly comparable deals—not merely from a valuation standpoint—you may better understand your host’s expectations, hopes, and concerns. You can then prepare good arguments for and against the comparisons and design your strategy to take them into account.

For example, a powerful yen and a string of high-profile Japanese investments in the United States during the 1980s—including Mitsubishi’s purchase of Rockefeller Center, Sony’s acquisition of Columbia Pictures, and Bridgestone’s takeover of Firestone—gave rise to a serious U.S. case of economic anxiety with respect to the seemingly unstoppable Japanese investment juggernaut. Good advice, therefore, to Matsushita before acquiring the U.S. film studio MCA in 1990 (which included Universal Pictures) was to carefully test for and defuse adverse public and congressional reaction in the course of doing the deal. Matsushita’s experienced media and congressional advisors did just that before proceeding. In particular, Matsushita minutely dissected Sony’s acquisition of Columbia Pictures both for positive and negative lessons. Among other comparative dimensions such as pricing and the role of advisors, Matsushita anticipated and thought through tough but likely U.S. reporter’s questions: “What would be Matsushita’s reaction if MCA wanted to make a film that was critical of the Emperor’s wartime role?” (Unfortunately for Matsushita, the deal, while completed, foundered on other, more fundamental grounds.)

As a potential business negotiator in China, you would benefit from a real familiarity with major salient deals, both in the specific industrial sector and region you were targeting. In the 1980s, these would have included the failed Oxy-China National Coal Development Corporation venture that pointed to lower-level bureaucratic resistance and cultural clash. The AMC (since acquired by Chrysler) agreement with Beijing Automotive Works to produce jeeps suggested how very different visions of a deal could lead to major difficulties: “same bed, different dreams.” Similarly, a range of lessons can be drawn from the Three Gorges Dam development along with the China experiences of Levi’s, Disney, Coca-Cola, United Technologies, Lehman Brothers, McDonalds, Motorola, and a host of smaller firms.

**Broader political and economic context.** Beyond comparable deals, you should look more broadly for negotiation-relevant factors. If you are planning to negotiate an investment in Russia in the 1990s, your basic business assessment should have turned up major characteristics that will affect your negotiations: enormous economic opportunity tightly coupled with political instability, a wrenching and very uncertain economic transition from the old command-and-control economy to a free-for-all market, a nearly defunct legal system, and so forth. From the simplest logistics, to tax and profit repatriation, to claims employees may have for “social costs,” it can be very dangerous to assume that things will work as they do in your home market. Similarly effective dealmaking in newly democratizing South Africa, in imploding Indonesia, or in China undergoing economic transition requires far more knowledge about politics and economics than about local protocol and etiquette.

In particular, “hot button” issues, such as the premium the Chinese place on deals that promise to transfer high technology give a strong clue as to how the other side will see its interests. If the central bank is likely to squeeze the money supply, the provisions you negotiate for payment need special attention in the expectation of tight liquidity. If you are investing in a newly privatizing sector, it is particularly important to understand how brutal and final the political battle over privatization has been to understand which players will be involved, how they will see their interests, and which forces may have the means and motives to stop you. If natural resources involved in your potential deal are perceived to have an almost mythic national status, such as oil enjoys in Mexico or Venezuela, this awareness can help save you from serious missteps.

In the case of China, depending on when you were contemplating negotiations, the political and economic context would be very different. At a macro level, official U.S.-Chinese relationships have varied dramatically, often with repercussions for individual firms. Widely different climates have reigned: Nixon’s “opening” of China, the 1989 Tiananmen Square crackdown with the later-withdrawn U.S. threat to revoke China’s Most Favored Nation trade status, battles over intellectual property and World Trade Organization accession, accusations of Chinese nuclear espionage, and the accidental bombing of the Chinese Embassy in Belgrade by Nato forces in the Kosovo war.
The commercial context for negotiation in China has also shifted greatly. In recent times, the first broad wave of foreign investment in China, including such firms as Unilever and Ivec, took place during the 1980s when China was seeking a decisive break toward a market system. These pioneers hoped to stake out early positions for later advantage even if it meant a very long wait. A second wave in the early 1990s included firms like General Motors and large foreign banks swelled the investment totals to almost $50 billion per year, making China the second largest target for foreign investment after the United States. Huge perceived market potential, the belief that early brands would gain decisive edges, and relatively welcoming government policy drew in these firms. Yet by the late 1990s, the yearly numbers of foreign contracts signed had dropped by half and total new foreign investment in China appeared to sharply contract. Existing investors were rethinking their actions in light of sobering experience. For example, by early 1999, the Royal Bank of Canada pulled out; Southwestern Bell retreated from a planned joint venture; Foster’s of Australia sought to sell its Chinese breweries; and Marks and Spencer of the UK closed its Shanghai office and dropped plans for a new store. Factors included intensifying competition from domestic companies, a decidedly more hostile regulatory environment ("buy local" policies, foreign exchange controls, etc.), and an economic slowdown with a potential currency devaluation.

In short, you should assess the broader political and economic environment for issues that might affect your negotiation. You should also learn about salient deals. These factors can affect virtually every aspect of the negotiation process: parties, issues and interests, perceptions, expectations, no-agreement alternatives, and so on.

Caveats: Avoid cross-cultural fallacies

Cross-border negotiation entails a number of systematic differences that can be uncovered by the kinds of assessments described above: 1) of etiquette, protocol, and deportment in general, 2) of deeper cultural characteristics, 3) of negotiation-specific process expectations, 4) of decision-making and governance processes, and 5) of relevant political and economic factors. Each of these assessments has been described for specific countries, with the example of China running through the discussion. Such cross-border analysis is useful but prone to at least four hazardous fallacies.

1. The John Wayne v. Charlie Chan Fallacy: stereotyping national cultures:

Start with the obvious: All American negotiators are not like John Wayne and all Chinese negotiators are not like Charlie Chan. Or Bill Gates and Fu Manchu. Or Michael Jordan and Confucius. Or Jesse Jackson and Mao Zedong. We know that negotiators in southeastern France may bear more resemblance to northern Italian negotiators than to Parisian counterparts. The culture of western Chinese Uighers is far more akin to neighbors in Pakistan than comrades in Beijing. And what is distinctively "Canadian" when its citizens vary from francophone Quebecois to traditional English Torontonians and to transplanted Hong Kong tycoons now living in Vancouver? In the face of this variation, we wisely caution ourselves against mindless stereotyping by nationality (as well as by gender, religion, race, profession, or age). Even so, it is very common to hear offhand remarks such as "all Chinese negotiators...") To combat this, a strong version of the anti-stereotyping prescription calls for ignoring nationality altogether in preparing for negotiation.

That advice is too strong. Nationality often does have a great deal to do with cultural characteristics, especially in relatively homogeneous countries like Japan. As discussed earlier in this paper, the careful work of many researchers confirms significant associations between nationality and a range of traits. It would be foolish to throw away potentially valuable information. But what does information such as that described above on behavioral expectations or deeper cultural characteristics really convey? Typically, cultural descriptions are about central tendencies of populations that also exhibit considerable "within-group" variation. Suppose that a trait like cooperativeness (versus "competitiveness") is carefully measured by a psychological testing instrument for the citizens of country X. The results will be a distribution with a few citizens rating very highly cooperative, a few rating highly uncooperative, and a majority clustered around a more middle range.

Suppose that this distribution was a normal or bell-shaped curve with the most likely value equal to the mean of the distribution (See Figure 1.)
This is useful data, but easily misinterpreted. Social psychologists describe the "prototypicality error" or tendency to treat someone from a given population group as if they would exhibit the group's most likely tendencies; that is, knowing that someone is from Country X, one naturally assumes that this person is about as cooperative as the mean or most likely point in that distribution. Yet a bit of statistical reasoning exposes some of the dangers of this commonsense approach. Take a randomly chosen citizen of country X whose distribution of cooperativeness is accurately portrayed in Figure 2 below. Question: how likely is it that this randomly chosen citizen displays a level of cooperativeness somewhere within the range of 20 percentile points above or below the mean, which is the most probable description? (See Figure 2.) Answer: there is only a 40% chance that this person exhibits cooperativeness 20 percentile points above or below the most likely value for country X. Equivalently, there is a 60% chance—more than even odds—that this person displays a level of cooperativeness outside this centrally representative, most likely, range.

This means that even the most likely trait for a population described as in Figure 2 will not likely apply to a given individual from that group. *Remember, you negotiate with individuals, not averages.*
What does it actually mean for one culture to be, for example, more oriented to interdependence than another? Take for example the following bell curves, gleaned from Hofstede’s 1980 study, representing the independent vs. interdependent nature of Americans and Guatemalans. This chart reflects that the average American is more independent-minded than the average Guatemalan. Yet both cultures exhibit a range of orientations, and there is considerable overlap between them.

**Figure 3: Hypothetical distributions of independent/interdependent value scores in an individualist and a collectivist national culture.**

Even though the central tendencies of two different national groups for given traits may systematically differ, correct inferences about how given individuals from the two countries compare can be quite tricky. Consider a second thought experiment comparing individuals from two countries, which we’ll call COOP and COMPET. Say that on average, citizens from COOP are twice as cooperative as those from COMPET. To make this more precise, suppose that we represent the two countries by a pair of dice, each with six sides. Say that a green side represents a cooperative personality while a red side represents a competitive one. Therefore, the die representing COOP has four green sides (and two red ones) while the COMPET die has four red sides (and two green ones). Thus to be from COOP is, on average, to be twice as cooperative than your COMPET counterpart. Question: if a randomly chosen citizen from each country were going to negotiate, what are the odds that the citizen from COOP is more cooperative than the one from COMPET? This is equivalent to saying that you roll the dice and ask what the odds are that the COOP die ends up green while the COMPET die ends up red. Despite the overall likelihoods, and the fact that there are twice as many competitors in COMPET than in COOP, the answer is “less than half” (4/9 to be precise). The broader point? Inferences about individuals from central tendencies are often misleading or wrong. *You negotiate with individuals, not averages.*

But viewing the world without the aid of stereotypes is difficult. Forming stereotypes is a natural reflex that helps order the overflow of information that barrages us. Social psychologist Ellen Langer argues that a solution to the negative effects of stereotyping is “mindfulness,” which she defines as a willingness to create new categories, an openness to new information, and an awareness that more than one perspective exists. Rather than straining against forming stereotypes, a more realistic strategy is to allow stereotypes room to change, multiply and adapt to new information. Assess, don’t assume.

In sum, remember that “national traits” are distributions of characteristics across population, not blanket descriptions applicable to each individual. Be very cautious about making inferences about characteristics of specific individuals from different groups—even where the groups are sharply different on average. Avoid stereotyping and the “prototypicality” error of assuming an individual will exhibit the most likely group characteristic. Even if U.S. negotiators are on average more impatient, deal-focused, and individually oriented than their Chinese counterparts, be careful not to mentally create a stereotype on the other side; even a large number of U.S.-Chinese negotiations is most unlikely to feature the equivalent of John Wayne pitted against Charlie Chan. Or Bill Gates against Fu Manchu. Or Michael Jordan against Confucius. Or Jesse Jackson against Mao Zedong.
2. The Rosetta Stone Fallacy: overattribution to national culture.

National culture clearly matters. But there is a tendency to see it as the Rosetta Stone, the indispensable key to describe, explain, and predict the behavior of the other side. Of course there are many possible "cultures" operating within a given individual. Beyond her French citizenship, an ABB executive may well be from Alsace, have a Danish parent, feel staunchly European, have studied electrical engineering, and have earned a Chicago MBA. National culture can be highly visible but, obviously, is only one of many possible influences. For example, Jeswald Salacuse surveyed executives from a dozen countries to determine national tendencies on ten important bargaining characteristics such as negotiating goal (contract v. relationship), orientation (win-win v. win-lose), formality level, communication style, risk-taking, etc.\(^7\) While his results showed significant national differences, he also analyzed the data according to profession and occupations of the respondents such as law, engineering, marketing, military, diplomacy, accounting, etc. These categories, too, showed systematic association with different bargaining styles. Finally, Salacuse could differentiate many of these style characteristics by gender as well. Other extensive studies extend and elaborate analogous findings: nationality matters to bargaining characteristics but so can gender, ethnicity, functional specialty.\(^8\) Figure 4 below reminds us that national culture is but one of many "cultures" that can influence bargaining behavior.

![Figure 4](image)

Just as there are many cultures influencing bargaining behavior, there are many other potential contributing factors such as personality, finance, business fit, politics, and strategy. Figure 5 below makes this point graphically. In a study of the performance of a number of companies that had been acquired by "foreign" entities, Rosabeth Moss Kanter and Ian Corn carefully sought to account for post-acquisition outcomes.\(^9\) While business and technical factors were often determined to be the dominant factor, the first explanation advanced by managers of the target firms was "cultural."
Figure 5

Attribution bias. Cultural differences, often evident in surface behavior, are easy to see; richer contextual factors often are not. In unfamiliar cross-border settings, factors like strategic incompatibility, politics, or even individual personality are less likely to be “blamed” for undesirable outcomes. The powerful but unconscious tendency to overattribute behavior to culture, all too often clouds negotiators’ vision of the full range of factors that can affect a negotiation. Psychologists have extensively documented this dynamic, a systematic tendency to focus on supposed characteristics of the person on the other side of the table, rather than on the economic or other powerful contextual factors. The antidotes? First, remember that “culture” doesn’t just mean nationality; instead there are many potentially influential “cultures” at work. Second, beyond “culture” are many other potentially contributing factors. Nationality can carry important information, but with many other cultures and many other factors at work, you should be careful of treating your counterpart’s passport as the Rosetta Stone. Assess, don’t (unconsciously) assume.

3. The VFR at Night Fallacy: falling prey to potent psychological biases in cross-cultural perception

Just as trying to pilot by “visual flight rules” (VFR) at night or in a storm is hazardous, the psychology of cross-cultural perception can be treacherous. Beware the witches brew of biases and psychological dynamics that can bubble up when one begins to label “other” groups, attribute characteristics to them, and act on these perceptions.

Self-serving perceptions of our own side. There is a powerful tendency, formally studied as “biased assimilation,” for people to self-servingly interpret information in negotiation on their own side. For example, experimenters give a number of people identical information about a pending court case but randomly assign them to the role of plaintiff or defendant. When each person is asked for his or her private assessment of the probability that the plaintiff will win, those assigned the role of plaintiff on average give much higher odds than those (randomly) assigned to the role of defendant (but, again, on the basis of identical information). People tend to “believe their own lines” or self-servingly interpret information. Similar results have been found for corporate valuation results-done on the basis of the same data—by randomly assigned buyers and sellers. And this tendency runs deep: researchers conducted an experiment at a boys camp in the late 1950s, sponsoring a jelly bean hunt among the campers. After the hunt, the boys were shown an identical picture of a jar of jelly beans. Each boy evaluated the total number of beans in the jar according to whether he was told the jar belonged to his own team or to the other side. The same photograph was estimated to contain many more beans when it was presented as “your team’s” and far fewer when it was alleged to be the “other side’s.”

Partisan perceptions of the other side. If our capacity to accurately process information critical to our own side is flawed, it is even more the case for our assessments of the other side in a conflict or negotiation. In part, this stems from the in-group/out-group phenomenon. Persons from different cultures, especially on the op-
posite side of the bargaining table, are more readily identified as belonging to an “out-group,” or as Other. Once that labeling is in place, powerful perceptual dynamics kick in (beyond the tendencies toward stereotyping and overattribution already discussed). Robert Robinson describes extensive research over the last 40 years, documenting an unconscious mechanism that enhances “one’s own side, portraying it as more talented, honest, and morally upright” while simultaneous vilifying the opposition.55 This leads to a systematic exaggeration of the other side’s position and an overestimation of the extent of the actual conflict. This can and does cause negotiators to be unduly pessimistic about their ability to find common ground, and even be unwilling to pursue it.56

Self-fulfilling prophecies. Such partisan perceptions hold the power to change reality by becoming self-fulfilling prophecies. The effects of labeling and stereotyping have been documented thoroughly to show that perceptions have the power to shape reality. Experiments testing the effects of teachers’ expectations of students; diagnoses on mental patients; and platoon leaders’ expectations of their trainees are only a few of many studies confirming that expectations prod behavior.57 At the negotiating table, the same principle holds true: clinging firmly to the idea that one’s counterpart is stubborn, for example, is likely to yield intransigence on both sides, precluding the possibility of a compromise that might have occurred had the label of “obstinacy” not been so rigorously affixed.58

In short, just as a pilot trying to navigate by visual flight rules at night or in a storm is prone to dangerous misjudgments, the psychology of perception in cross-cultural situations is rife with biases. Not only do we stereotype and overattribute to nationality, we are also poor at interpreting information on our own situation, vulnerable to partisan perceptions of the other side, and likely to act in ways that become dangerously self-fulfilling.

4. St. Augustine’s Fallacy

Assume that you have undertaken a full analysis of the culture of the person you will meet on the other side of the bargaining table. St. Augustine gave the classic cross-cultural advice: when in Rome, do as the Romans do. While this admonition certainly has merit, it is not always good advice. Steven Weiss has extensively developed the point that there may be much better options.59 For example, learning that the Chinese are hesitant to take risks is only a first step. Clearly, a responsive strategy would not mimic this hesitancy, but effectively anticipate it.

Rather than learning to behave as the ‘Romans’ do, strategies should accommodate the degree of cross-table understanding each side has of the other. For example, consider the best approach for a U.S. manager on his first visit to Japan dealing with a Yale-educated Japanese executive who has worked extensively in Europe and North America. Here it would be sensible to let the Japanese adapt. If a negotiator is far more familiar with a counterpart’s culture than vice versa, the best strategy might be to embrace the counterpart’s negotiating script. If both sides are equally “literate,” an improvisational and mutually-accommodating approach might be most appropriate. A lower degree of familiarity dictates bringing in locally familiar expertise, perhaps on your side and perhaps even as a mediator.60

A great deal depends on how familiar you are with “Roman” culture and how familiar your “Roman” counterpart is with your culture. And of course you want to avoid the previous fallacies as well. The nationalities across the table from each other may be Chinese and U.S., but both players may be regulars on the international business circuit, which has its own, increasingly global negotiating culture. Again, assess, don’t assume.

---

1 I would like to acknowledge the energetic and insightful research assistance of Rebecca Green and Ron Fortgang as well as the useful suggestions of David Lax and Rob Robinson.


This first part of this paragraph is paraphrased from Usunier, p. 94.


Gesteland, p. 40-1.


Jean-Claude Usunier reviews the empirical studies linking Hofstede’s variables to negotiating outcomes, finding generally positive results in “A comment on the use of Hofstede’s cultural dimensions in the academic literature on international business negotiations,” in Pervez Ghauri and Jean-Claude Usunier, eds., International Business Negotiations, Oxford: Pergamon, 1996, pp. 127-9.


This draws heavily on my cases "Decorum in Guangzhou (A) and (B)," Harvard Business School Publishing, 1999.


Ibid., p. 146.


A summary of some of these issues may be found in Viviane de Beaufort and Alain Lempureur, "Preparing Mergers and Acquisitions in the European Union: The Asset of Cooperative Negotiations," in Ghauri and Usunier, 273-301.

Information in this and the following paragraph is taken from Razeen Sally, "A French Insurance Firm and Fortress Germany: The Case of AGF and AMB," plus the associated “Appendix,” INSEAD Cases 394-052-1 and 394-052-5, respectively, Fontainebleau, France, 1994.


Ibid., p. 9.


For example, see Charkham, J. Keeping Good Company: A Study of Corporate Governance in Five Countries, Oxford: Clarendon Press, 1994.

This example is drawn from Roderick MacLeod, China, Inc.: How to Do Business with the Chinese, Toronto: Bantam Books, 1988, pp. 28-30 and 149-155.


Lieberthal, p. 185.


DRAFT “Assess, Don’t Assume,” copyright © 1999 by James K. Sebenius. Do not cite or reproduce.

Based on Smith and Bond (1993), p. 41.

To see this, remember that there are 36 possible combinations of reds and greens when two dice are rolled. The cases in which a COOP is strictly more cooperative than a COMPET correspond to the dice rolls in which COOP comes up green while COMPET is red. There are four green sides to the COOP die and four red sides to a COMPET die implying 4X4 or 16 possible outcomes with a green COOP die and a red COMPET die. 16/36 is therefore the right answer.


Weiss, p. 56.