
In Practice

Tailoring the Mutual Gains Approach for Negotiations with Partners in Japan, China, and Korea

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An increasing number of Western firms are negotiating agreements with business partners in Asia and must achieve business-critical results while building and protecting relationships. In this article, we review the literature regarding negotiation norms and approaches in Japan, China, and Korea. Drawing on structured interviews with experienced business executives at Hewlett-Packard, a U.S. corporation with a substantial presence in these countries, we highlight ways in which cross-cultural difficulties can arise in negotiations between American organizations and their Eastern counterparts. We note similarities and differences across these cultures and propose an expanded prescriptive model on how to adapt and implement a mutual gains approach to negotiation with counterparts who are based in Japan, China, and Korea.

Keywords: mutual gains approach, cross-cultural negotiation, business partnerships, Japan, China, Korea, Hewlett-Packard.

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Introduction

Negotiation across cultures is occurring more often today than ever before. Last year, a single company, Hewlett-Packard, negotiated for an estimated \$40 billion in goods and services with suppliers in East Asia and for an additional \$12 billion with East Asian sales partners.¹ While a growing body of literature has looked at the role that culture plays in business negotiation (Brett 2001; Salacuse 1991; Sebenius 2002; Wanis-St. John 2005), prescriptions have often focused on different levels of social analysis (e.g., social etiquette, organizations, and general cultural norms). As a result, negotiators are confronted with advice that can be both very specific (e.g., receive a business card with two hands) and very broad (focus on relationships first). As James Sebenius (2002) notes, most advice focuses on individuals and largely overlooks the need to influence decisions in more than one organization through the use of some strategic *process*. In short, parties usually lack a road map on how to proceed in a way that maximizes their chances of creating value while respecting the different norms and processes found in various cultures.

In this article, we try to lay out a road map that focuses on creating value while managing relationships within the norms and customs typically found in three economically dynamic Asian countries: Japan; the People's Republic of China; and the Republic of Korea. To gain a better understanding of how businesses in these cultures currently approach important negotiations with their counterparts in the West, we interviewed two dozen senior executives from Hewlett-Packard who collectively possess many years of negotiation experience. We also reviewed negotiation literature from the U.S., Japan, China, and Korea to look for similarities and differences. Based on our findings, we provide an expanded or *tailored* model for U.S. organizations that negotiate with their counterparts from those countries. It is a model presented in a spirit of theory-generation and model-building rather than as a set of airtight conclusions. We believe that, as companies adopt and adapt this model, greater refinement and empirical support is likely to follow.

We want to emphasize at the outset, however, that in an increasingly global world, it would be foolish to advance a rigid process or set of invariant prescriptions. Today, a negotiator from another country may have come from a multicultural family, may have been educated elsewhere, may have worked extensively overseas, and may be well acquainted with a variety of cultural practices. We feel it is a mistake to assume that all individuals from a culture have the same personality or background (Susskind 2004), and it is also a mistake to ascribe difficulties or uncertainties that emerge during negotiations to "the unique culture" of a given country. As we hope will be clear, our model does not advance

an invariant “one-size-fits-all” set of tactics. Rather, it is a contextual model that is meant to describe how a general strategy for creating value and protecting relationships can be bolstered by attention to additional factors, before, during, and after the negotiation. How attention is deployed and how specific interactions proceed probably depends to a significant degree on the skill and experience of the negotiator. Nevertheless, we contend that having a flexible and contextual model is better than having none.

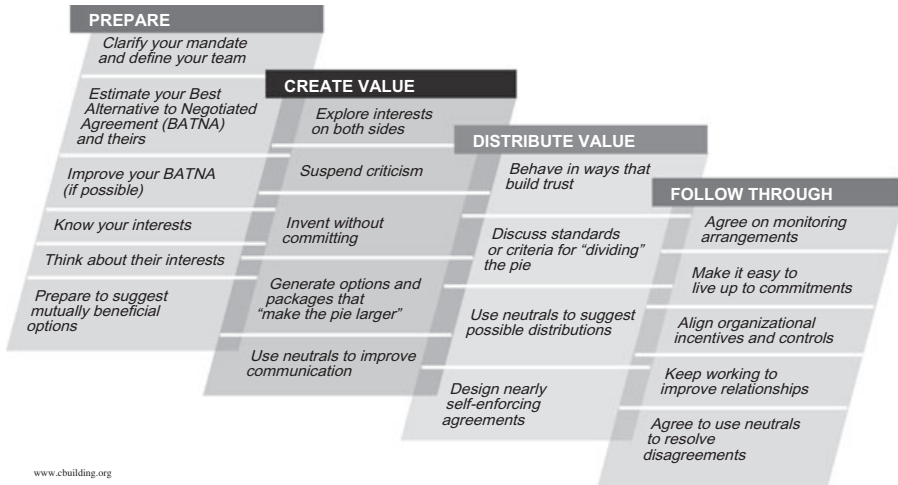
The Mutual Gains Approach (MGA) to Negotiation

A theory of negotiation focusing on the creation of value for all parties (by focusing on inventing options that meet all parties’ interests and by using objective criteria to fairly divide gains) has become extremely popular in Western negotiation literature. With roots in works by Howard Raiffa (1982), Roger Fisher and William Ury (1981), David Lax and James Sebenius (1986), Lawrence Susskind and Jeffrey Cruikshank (1987), and others, this approach suggests that negotiation need not involve deception or aggression in order to achieve one’s goals. Rather, findings from several fields have converged to suggest that negotiation can be seen as a process challenge in which more information about interests and more creative options can increase the benefits to all parties, creating better results and relationships. The approach has been buttressed by many studies showing that negotiators typically miss opportunities to create value, in part because of cognitive biases (Bazerman and Neale 1992; Thompson 1998), and by studies of procedural justice (Tyler and Blader 2003) that suggest that parties not only value outcome relative to achieving a goal but also value the fairness and integrity of the process used to get there.

We focus here on the particular process called the MGA, which Larry Susskind and his colleagues at the Consensus Building Institute in Cambridge, MA have described as a four-step process, shown in Figure One.

The MGA approach shares features of Fisher and Ury’s (1981) “principled negotiation” approach and also incorporates analytical recommendations made by Lax and Sebenius (1986), Howard Raiffa (1982), Max Bazerman and Margaret Neale (1992), and Robert Mnookin and colleagues (2000). The four-stage MGA is a prescriptive model that centers on four sequential negotiation tasks: preparation; creating value; distributing value; and follow-through. The model suggests that preparation is the most important of these four. It advises parties to understand their own best alternative to a negotiated agreement (BATNA) and their key interests, and to also estimate their *counterpart’s* BATNA and key interests. It suggests that parties can achieve better agreements by transforming single-issue negotiations into multiple-issue negotiations; by trading across issues that are valued differently by parties; by inventing options neither party had

Figure One
The Mutual Gains Approach to Negotiation



previously envisioned; by creating contingent agreements to handle disagreements about the future; by adding new issues; and by and through other means. It underscores that conversations about dividing gains should be delayed for as long as possible, and that following through effectively requires monitoring, alignment, relationship-building, and dispute resolution provisions.

With the MGA process model in mind, in the following three sections, we review literature on negotiation from Japan, China, and Korea. Within each section, we begin by reviewing the major traditions and social norms that inform approaches to negotiation in those countries. We organize the negotiation advice from each country into the four stages of the MGA process model. We include supplemental observations from experienced Hewlett-Packard negotiators. We then examine similarities and differences across the three countries. In the final section, we summarize findings and make recommendations for modifying the MGA process model to increase the probability of success and also discuss the limitations of our model.

Adapting the MGA for Japan

Background

Japan has experienced enormous change in the last fifty years. With the "invasion" of Japanese-made durable consumer goods into the American

market in the 1970s, American managers' interest in Japanese business customs increased substantially. Ezra Vogel's *Japan as Number One* was one book that provoked such interest (Vogel 1979). Through the 1980s, a body of literature focused on "Negotiating with the Japanese" began to grow, and books such as *The Japanese Negotiator* (March 1988) typically discussed tactics for success, based on authors' actual experiences in negotiating with Japanese businesspeople.

In more recent years, Japan's economy has cooled and a number of foreign-owned companies have entered the Japanese market: by 2004, 4,460 foreign-owned (*gaishi-kei*) companies were operating in Japan (METI 2004) and foreign firms had purchased major financial institutions, such as Yamai-chi Securities. Moreover, as globalization takes hold, thousands of expatriates today move from the U.S. and European Union to Tokyo every year.²

Perhaps in response to these trends, so-called Western-style management books on business negotiation (*ko-sho* in Japanese) have grown in popularity in recent years. While the word "negotiation" traditionally has a negative connotation in Japan (March 1988), at least fifty-four books that include the word *ko-sho* in their titles were published in 2005.³ This literature mostly focuses on popular theories from the U.S., such as the principled negotiation approach set out in *Getting to Yes* (Fisher and Ury 1981) and the MGA described by Susskind and Cruikshank (1987).

In this section, we review lessons from the literature from the 1980s that addresses traditional Japanese ways of negotiating, from experimental findings from the 1990s, and from more recent books on *ko-sho*. We describe relevant findings that bear on the four stages of the MGA and raise issues relevant to adapting this approach when negotiating with Japanese business partners.

Preparation. Although there is a range of literature to draw from, some convergent prescriptions emerge with respect to preparation. Negotiators should complete several key tasks before coming "to the table." The first of these is to spend additional time and resources to study the potential partners' business. Anthropologists such as Edward Hall, who has studied negotiation in different cultures, point out that Japanese negotiation is highly "contextual." According to Hall and Hall (1987: 158), "context refers to the fact that when people communicate they take for granted how much the listeners knows about the subject under discussion." In high-context cultures, negotiators assume that the other parties understand basic information about the subject under negotiation. Japanese negotiators will have researched Western organizations and will expect them to have done the same (Gercik 1992).

Specifically, it is wise to review the company profile, find relevant news articles, and conduct Internet searches before the first meeting. Try

to understand the other party's "corporate culture," if possible. If there are multiple potential partners whom you might approach, assess the compatibility of their corporate culture and management practice with your company, especially if your company intends to develop a long-term relationship. To some degree you will be expected to adopt the norms and other underlying value systems of your Japanese partner when working with that organization, so it is important to understand how the company operates and what its values are, in terms of both ends and means.

Second, great care must be observed when setting the stage for negotiation. As Hall notes, "In general, high-context people in their own environment don't like to be told how to do things, including how to order their facts. European logic is perceived as intrusive by Japanese, as an attempt to get inside other people's heads and do their thinking for them" (Hall and Hall 1987: 120). Therefore, one needs to be tactful about how one suggests the use of the MGA. If your counterpart has some knowledge of Western negotiation literature, that may serve as a bridge for making explicit your organization's preferred approach.

Another option is to convey your process preferences indirectly to the other side before the first meeting, as part of initial information exchange. For example, an information packet provided to the other side might include a brief description of the MGA, and a statement to the effect that "Because we seek to create value for all parties, and to protect relationships, the mutual gains approach has been our preferred approach to reaching agreements with key partners." As we shall see, one key strategy in negotiating with Japanese counterparts is to emphasize the importance of the relationship. To the degree that a mutual gains (or similar) approach is framed as a process that can help to build a strong relationship (rather than one that is "the most widely used today" or "the way we do things in the States" or "the rational approach" to negotiation), the greater its chance of being adopted, or at least explicitly discussed.

Understanding Roles and Responsibilities. Japanese businesspeople will usually expect negotiators to understand and manage the needs and perceptions of stakeholders within their organizations. Because consensual decision-making is an important part of the organizational culture in Japanese companies, it is expected that each representative at the table will seek and achieve consensus among stakeholders who are not at the table. In Japan, the ability to orchestrate a consensus within an organization is a highly valued leadership skill (Hall and Hall 1987).

More specifically, the ability to build consensus "behind-the-scene" is known as *nemawashi* and is highly valued in Japanese business practice (Hall and Hall 1987; March 1988; Hodgson, Sano, and Graham 2000; Blaker,

Giarra, and Vogel 2002). *Nemawashi* involves the use of influence but should not involve coercion. Rather, it is about setting expectations and reconciling and integrating differing interests within one's own organization. When done well, *nemawashi* prepares negotiators to suggest mutually beneficial proposals and helps to prevent unwanted "surprises" during a negotiation. Prior to negotiations, effective negotiators will have identified and involved relevant stakeholders within their organizations, built consensus around their interests and priorities, and helped to manage expectations. In our interviews with senior negotiators, we found that Japanese procurement staff typically organize informal team-building meetings before starting a negotiation and continue to meet away from the table during the negotiation. These kinds of *nemawashi* meetings help bring interests, expectations, and concerns within the team to the surface, smoothing the path toward agreement.

Because *nemawashi* is such an important process in Japanese business, it can be critical for negotiators to determine if their Japanese counterparts are truly able to commit their organizations to different proposals or options. Some of the managers we interviewed described the following scenario, which was typical of failed negotiations with Japanese counterparts: top management from the Japanese company does not participate in the negotiation. Western negotiators reach a draft agreement with Japanese staff, but at the last minute, management rejects the draft agreement reached by their staff members and proposes a take-it-or-leave-it offer to the Western company. This problem often arises from the inability of the lower-tier staff to orchestrate an internal consensus (although in some cases it may be a deliberate failure designed to claim more value for their side — a version of "good cop, bad cop").

Unfortunately, it can be almost impossible to determine the other side's *nemawashi* skills at the outset of a negotiation. Understanding the company's organizational structure can help, as can making inquiries that are designed to assess how the other side is communicating with the real decision makers throughout the negotiation. High-level "side meetings" between senior leaders can sometimes serve this purpose. Finally, it is important to guard against the "last-minute offer." It can be dangerous to agree to offers under pressure that do not meet key interests or that set disadvantageous precedents.⁴

Managing Status. Social status is one of the features that Western negotiators must be particularly attentive to in negotiating with Japanese counterparts because it can be selectively deployed as a source of negotiating power (Brett et al. 1998; Brett 2001). Those with a higher status are generally accorded a larger share of gains that are created. Status also

informs appropriate negotiating behaviors. It is crucial that those with a lower status follow certain rules in order to avoid offending the other side. Status can be defined by age, experience, and other attributes of each negotiating party. To some degree, it is also determined by role. For example, a few authors suggest that buyers in Japan generally enjoy greater status than sellers (Graham 1993; Hodgson, Sano, and Graham 2000).

Although status plays an important role during efforts to claim or divide joint gains, it can have an effect on managing the relationship with negotiating parties as well. Sometimes, senior officials or supervisors might be present at the beginning of the first meeting. Do not assume that they will participate substantively; they may have come to the meeting just to deliver a welcome. In such situations, to attempt to negotiate substantive issues directly with the supervisors is to risk offending or humiliating the junior staff. When both are present, try to understand the relationship between the supervisor and the staff, and use it to help estimate your counterpart's influence within his or her company. When unsure about the other side's organizational structure, one might seek the advice of a third party who is familiar with it. Indeed, the use of third parties at the preparation stage can be critical in "setting the table."

Using Intermediaries. The MGA suggests that working with neutrals can help the negotiator to discover interests that parties are reluctant to share with one another, to "float" possible options for joint gain, and to find fair ways of distributing "the pie." In negotiating with a new Japanese business partner, however, it can also be important to involve a third party at the outset. That person does not have to be strictly "neutral" in the eyes of the parties, but he or she has to be adequately acquainted with both parties. This person is sometimes referred to as *sho-kai-sha* (introducer) or *chu-kai-sha* (middleman) (Hodgson, Sano, and Graham 2000). The middleman usually makes the first contact, upon the request of one party to the other. Sometimes the middleman is consulted by one party and matches the party with another who can best address the issue. Occasionally, the middleman appears at the first meeting to introduce the two parties. The middleman can facilitate the development of a relationship between parties by confirming each party's credibility, assuring — implicitly or explicitly — that each person or organization is a reputable potential partner.

The use of a middleman is not a requirement (notwithstanding that assertion in some literature on Japanese negotiation), but it can be of critical importance if one needs to establish one's credibility with the other party (March 1988; Graham and Sano 1989). For instance, a U.S. procurement officer we interviewed enlisted his own organization's

Japanese staff when initiating negotiations with Japanese vendors. The Japanese managers served as the *chu-kai-sha*, and knew the right vendors by virtue of having developed long-term relationships with them “on the ground” in Japan.

First Meetings

Rituals and Small Talk. In movies and television, Japanese businesspeople often repetitiously bow for no apparent reason. This kind of face-saving ritual is, in fact, often followed by Japanese managers even though it is more casually enacted. Such ritual still matters in Japanese society and is used to acknowledge the vertical nature of the relationship between two negotiating parties (Nakane 1970; Hall and Hall 1987). As mentioned earlier, Japanese negotiators prepare thoroughly and usually understand the relative strengths or weaknesses of their BATNA. When negotiating parties are not on an equal status, these ritualistic moves are initiated by the weaker party to acknowledge this power differential and to express gratitude for the negotiation. In the first meeting, each movement acknowledges the vertical relationship. Not engaging in ritualistic moves suggests an understanding of equal or higher status relative to the other side. Therefore, it is important to understand one’s relative status to counterparts before the first contact. A middleman can help prepare parties to understand differences in power and leverage and can help prepare them to acknowledge such differences using appropriate rituals. If you are unsure about your own status, it is safe to be as polite as the other side is, but being overly polite can ruin your established status if you have one in Japan.

Once bowing or other rituals have been completed, Japanese managers sometimes begin informal discussions on matters unrelated to the subject of negotiation (Graham and Sano 1989). This phase is used to assess the role and character of counterparts and to gather information about perceptions of the market in general.

These conversations at the outset of the negotiation may seem tangential, and questions may not seem directly relevant to the issues at hand (Graham and Sano 1989). Japanese businesspeople tend to seek information about leaders and organizations throughout negotiations, with the assumption that it can be useful at some point (March 1988). Japan’s per-capita newspaper circulation (549 copies per one thousand people as of 2005) has been the highest in the world (Pharr and Krauss 1996; JNPEA 2006), and gathering facts is a common cultural practice. The business benefits of such fact-gathering are obvious: Japanese businesspeople use information gained about products, companies, and the market to locate potential business partners, improve alternatives away from the table, and assess the other side’s alternatives. The more one knows about the

market, the greater the chance of identifying attractive “walkaway” alternatives to agreement in advance of a particular negotiation.

Informal conversations before and/or after negotiations provide good opportunities for information gathering. As one procurement officer suggested,

We have many meetings with many different companies. As a part of the small talk (*seken banashi*), we talk about many subjects. Very important news often lies in the talk. For example, if I have a meeting for thirty minutes, I will spare ten minutes for it; I ask my staff to do so as well. One can't get good information in formal networking meetings or newspapers. We prefer to informally share the collected information in weekly staff meetings.

Initiating non-task conversation might begin with a question (e.g., “With which companies have you been dealing recently?”). The conversation must not appear overly inquisitive and should seem somewhat spontaneous. Asking too many questions unilaterally, without answering questions, will make counterparts uncomfortable. Sometimes it is effective to make an initial offer of information; for example, “I met Mr. A. yesterday, and he told me that his company will do this and that” (Mukaiya 2003: 164).

Creating Value

Creating a Comfortable Environment for Value Creation. The Japanese, in general, tend to be very sensitive to context and behave according to the situation they are embedded in. Anthropologist T. S. Lebra proposes a *uchi-soto/omote-ura* matrix to explain the mechanism behind the shift between three distinct Japanese behavioral patterns (Lebra 1976). *Uchi* (inside)-*soto* (outside) refers to how an individual feels about others in the same place, whether they are “inside” or “outside” the group that the individual belongs to. So, if one is talking with family members or colleagues at work, one is most likely in an *uchi* situation because of feelings of connection and belonging (although there are always exceptions, such as the unhappy child who feels alienated from his parents).

Omote (front)-*ura* (back) refers to the degree of public attention or exposure one feels in a given situation. Any situation in which one feels the attention of the public is *omote*, such as news conferences and formal meetings. If one is not the focus of attention, one is in an *ura* situation. According to Lebra, combinations of these two dichotomies help determine how one interacts (see Figure Two).

Lebra's model can be useful in preparing for a negotiation with Japanese businesspeople: it suggests that negotiations are most likely to be fruitful if conducted in an *ura* setting, in which one develops an

Figure Two
***Uchi-Soto/Omote-Ura* Matrix**

	<i>Omote</i> (front)	<i>Ura</i> (back)
<i>Uchi</i> (in)	---	Intimate
<i>Soto</i> (out)	Ritual	Anomic

“intimate” *uchi* relationship with others so that one can engage the other side in an interest-based negotiation. Otherwise, responses from Japanese parties can become ritualistic (i.e., they will assume a positional bargaining strategy) or anomic (i.e., they will show no interest in sharing joint gains). Crafting and maintaining the *ura-uchi* situation require an intricate attention to the negotiation setting.

First, it helps to share an *uchi* feeling with the other side. That is often achieved by engaging in conversations or sharing in activities. Sometimes, extra business activities, such as going out for a dinner together, going out for a drink after five, or golfing together, are used to generate such a feeling. Although these extra business activities have become less common in Japan recently as concerns about corruption and cost-effectiveness have heightened, American managers we interviewed did suggest that they are still useful in developing the relationship.

Second, the negotiation needs to be conducted in an *ura* setting. So, the negotiation should be conducted in a private meeting room where everyone in the negotiation can be sure that no one is overhearing the discussion. It is also important that when inviting counterparts to one’s office, they must feel comfortable enough with the situation to feel that they are in the *ura* setting. It can sometimes be effective to hold meetings or phone conversations *without supervisors* present as that can also create the sense of *ura*.

Ura-uchi situations occasionally create too much dependence between negotiating parties, resulting in collusion and unethical business practices. But making the other party feel comfortable and building

a strong relationship helps create the trust required to candidly share interests. Such candor is more likely to lead to the discovery of mutually beneficial options.

Exploring Interests. As mentioned earlier, Japanese negotiators have usually gathered lots of information by the time they come to the first meeting. Therefore, they are less inclined to start negotiation by laying out the facts and procedures (Hall and Hall 1987). They expect that all parties will have done their homework and may construe spending too much time laying out basic assumptions as a waste of time or as a sign of inadequate preparation. It does *not*, however, mean that negotiation should begin with the discussion of pricing, as Americans frequently do (Graham 1993). Indeed, the first phases of a negotiation in Japan often proceed slowly and indirectly, which can be frustrating for Westerners who want to come to the point quickly (Hall 1990). Japanese managers listen carefully to the claims of others, and there may seem to be little productive interaction initially (Gercik 1992).

Japanese negotiations often begin slowly because negotiators want to explore the interests of both sides before discussing the final agreement. Seemingly unproductive discussions can be used to grasp the “big picture” of both organizations, enabling negotiators to identify mutually beneficial trades. A comparative study of behaviors in a buy-sell simulation suggests that Japanese negotiators expect sellers to describe their general situation before price discussions begin (Graham 1993).

In this respect, adopting an MGA would not be seen as a radical departure from existing norms for negotiation in Japan. The “slow” start allows for the exploration of interests and the development of a workable relationship. It presents opportunities for both sides to explore interests and to formulate options for beneficial trades and to avoid immediate distribution of a “fixed-pie.”

Negotiation as Joint Problem Solving. As we have noted, Japanese negotiations usually start with small talk and other seemingly inefficient interactions; this is intended for relationship building in order to set the stage for joint problem solving. To the degree that relationships get off to a good start, Japanese counterparts will be more likely to view the negotiation as a cooperative, problem-solving exercise. Some Japanese even consider negotiation as an effort to bend or find loopholes in the rules to realize a common goal (Gercik 1992), but one should not assume this.

A cross-cultural study of attitudes toward negotiation suggests that the Japanese tend to see negotiation not as something to “win,” as Americans do, but as an area in which to “compromise” (Gelfand et al.

2001: 1067). Most Japanese do not regard negotiation as something confrontational and competitive. This is good news for those who would like to introduce an MGA or similar approach to Japanese negotiations: one can frame the negotiation with one's Japanese counterpart as a joint problem-solving effort for value creation without violating expectations or introducing a new way of thinking about negotiation. It is important to note, however, that "compromise" is not the central goal of MGA, as it implies a suboptimal gain for one or more parties, and perhaps even a failure to sufficiently advance one's important interests. Therefore, finding ways to invent and propose options for mutual gain will still be a critical task.

Distributing Value

Power and Status. Relative power and social status, as we noted earlier, can influence "the division of the pie" in Japanese negotiations because of its general importance in Japanese society (Brett 2001: 48–60). One cross-cultural analysis of behavior in negotiation simulations found that "Japanese sought to persuade, on the basis of social power, significantly more than Germans or Americans" (Tinsley 2001: 589).

Given this finding, improving one's *perceived* power may be particularly important in negotiation with Japanese counterparts. In the West, an effective way to gain negotiating power is to improve the perception of one's BATNA. In general, having a good BATNA enables a negotiator to argue for a "larger piece of the pie" by threatening to terminate the negotiation, regardless of whether one has higher organizational status — although the negotiator's threat to walk away must be credible. In Japan, however, explicit threats are often considered disgraceful behavior that harms the prospect of any long-term relationship. To display one's power in such a way is not considered appropriate in the eyes of the Japanese; as a Japanese proverb says, "The most skilled hawk hides his talon (*nou-aru taka-wa tsume-wo kakusu*)." In Japan's high-context culture, information about both status and no-agreement alternatives is shared indirectly.

A company can improve its status in Japan at the organizational level by continually investing in research and development, expanding contacts with multiple suppliers, and by having exclusive access to specific technologies and customer segments. Other possible strategies include taking prominent positions in trade associations, expanding market share, and improving the company's public image.

But such strategies require a long-term presence in Japan. Does this mean that companies with no experience in Japan must accept unfavorable deals until they achieve a certain status? Not necessarily. Of course, no company must accept an agreement that does not meet its BATNA. And, a negotiator can try to influence counterpart perceptions by indirectly

communicating messages about his or her strong BATNA to the other side; for instance, by using a trusted third-party to suggest to the other side that the negotiator might be forced ultimately to enter negotiations with a rival company. Finally, one could establish a reciprocity-based “*On* and *Giri*” relationship, which we describe later, by accepting a relatively less favorable deal that puts the Japanese partner in a position of indebtedness for future deals and arrangements.

A focus on status and power does not mean that parties without a good BATNA must “lose” in negotiation with the Japanese. As one author notes, “Americans tend to approach negotiations as a game which they are determined to win. In Japan everybody must win” (Hall and Hall 1987: 117). An international survey supports this characterization of Japanese approaches to negotiation (Salacuse 1998). Value-claiming behavior, and unethical behavior aimed at claiming value, is less prevalent in Japanese culture than in America.

Ongoing Reputation as an Equalizer. In recent years, social psychologists have focused on the individualist–collectivist dimension of negotiation. Japanese are considered “collectivists” who value interdependence, creating close ties among individuals, fulfilling one’s duties, and working to achieve the goals of the group or organization (Bazerman, Curhan, and Valley 2000: 297; Hofstede 1980). Japanese, in general, care about building long-term relationships with partners. Allocating gains based solely on momentary power can thus be seen as potentially harmful to the relationship and doing so can earn one a negative reputation that can spread quickly among potential trading partners in the densely networked Japanese society.

To maintain their relationships and reputation, Japanese will do “everything they can do to avoid appearing either self-centered or coldly rational” (March 1990: 17). Failure to maintain an image of trustworthiness could thus mean the loss of other business opportunities. Sometimes, a company might even be ostracized from the market. Therefore, one-sided distributions of joint gains are less likely in Japan in any particular negotiation than in the U.S. or Europe — even when the parties’ power is markedly asymmetric.

Reciprocity: On and Giri. Distribution-related negotiation behavior in Japan is also affected by the commonly accepted concepts of *on* and *giri*. *On* means something that is given by one party to another without a specific arrangement for repayment. For example, *on* is passed from parents to children, or from teachers to students. Sometimes *on* is awarded in business negotiations where a partner is at financial risk. Yet, it is less a philanthropic gift than a sort of investment. If Company A

provided an *on* to Company B, then Company B is expected to pay back the *on* later.

The feeling of *giri* — indebtedness — requires one to make repayment to the person who gave *on*, especially when the benefactor needs help. If one does not repay, Japanese society regards that person as a socially irresponsible “free rider.” For instance, in a cross-cultural study of perception about conflicts, Japanese participants viewed conflicts as being laden with violations of *giri* (Gelfand et al. 2001: 1070).

When dividing the pie in a negotiation, be mindful of *on*. If given an *on* through an exceptionally favorable deal, assume that you will be required to pay it back later or risk your brand. Some organizations intentionally give an *on* in the first deal, demanding the repayment continuously in succeeding deals. This strategy is known as *on wo wu-ru* (“to sell the *on*”). Here, a strong note of caution is in order: Japanese society is undergoing change, and the social networks that were effective in monitoring specific *on*-related debts have weakened. Using *on wo wu-ru* with small thriving companies, expecting those companies to return the favor in the future, has worked very well in Japan, but in the current Japanese economy, where each company has to compete with foreign competitors that do not care about *on* and *giri*, it may no longer be an adaptive strategy.

Formal Decision Making. Because the Japanese care about internal consensus within organizations, ratification by the organization after reaching a draft agreement between negotiators can be painstaking. In many cases, the negotiator will not have formal authority to sign the agreement. A system known as *ringi* — draft documents slowly working their way through many layers of the organization — can cause delay and require modifications to the draft agreement (Hall and Hall 1987; Hodgson, Sano, and Graham 2000). If one’s negotiating counterpart is a skilled negotiator who has managed the *nemawashi* well during preparation, ratification can be completed more efficiently.

But if your negotiating partner is poor at *nemawashi*, a negotiator might encounter surprises during the ratification stage. The Japanese counterpart might call to say, “I’m so sorry. The management won’t accept these terms. Please consider instead the following. . . .” This kind of feedback can be extremely frustrating. Sometimes, the negotiator simply could not manage to get the draft agreement endorsed by the key management. In other cases, it may be a ploy to elicit concessions; such a ploy is called *naniwa-busbi* strategy (Hodgson, Sano, and Graham 2000: 37; March 1990: 23) and is similar to the “good cop, bad cop” strategy.

Because it is hard to know which might be the case in any situation, it is important to make sure that the other side is continuously communicating with the real decision makers by *nemawashi* throughout the

negotiation. As mentioned earlier, it can be effective to orchestrate meetings between counterparts “one level up” to help break through an impasse. At the same time, it is wise to plan for additional time following the conclusion of negotiations in order for *ringi* to occur.

Use of a Third-Party Neutral to Break Impasses. In cases where a counterpart is demanding extremely unfair conditions in the final agreement, one should first consider consulting with a middleman (*chu-kai-sba*) or someone who is trusted by all parties at the table. If “unfair” conditions are rooted in the other party’s excessive demands, the middleman is likely to assist by admonishing the other side and urging a more equitable division. If the middleman was involved from the outset of negotiation, he or she will have some interest in ensuring a good outcome. If a middleman is available, he or she can provide critical assistance during an impasse.

Follow-Through

Long-Term Relationships. Because of the collectivist ethos in Japanese culture, negotiations are rarely one-shot deals. Doing business in Japan is not only about transactions; it entails consensus-building as well as relationship building. Patricia Gercik (1992) proposes a four-step model of successful negotiation with the Japanese, with the last step being “Marry me.” With this metaphor, she suggests that the final step of negotiation is to create an inseparable bond with the other party, a long-term relationship that can be considered as “social capital” (Putnam 2000) around which commitments are expected to be made and upheld.

Developing a strong relationship with a businessperson in Japan helps build a bridge that allows entry into a social network (Burt 1992), although it is often difficult for foreigners (*gaijin*) to gain entry into a web of tight-knit relationships (Lohr 1982). Several senior procurement officers we interviewed commented that they have built strong working relationships with select companies. One commented, “I put a lot of energy into the relationship . . . more outside the formal meetings than in them. If the relationship is in place, you don’t have to worry much about the written contract because when a tough issue comes up, you can talk about it and resolve it.”

Indeed, such continuous relationships help companies to follow through with commitments — which is an important component of the MGA — in two ways. First, the dense business network in Japan still effectively serves as a monitoring mechanism for ethical misconduct. Business organizations that do not keep their promises tend to lose their reputation in the network. Second, specific middlemen (*chu-kai-sba*) can serve as the third-party neutrals when there is a disagreement, a practice

that has its roots in Japanese traditions. For example, a traditional marriage ceremony in Japan requires the participation of a senior go-between couple (*nakoudo*) who know both the bride and the groom. When the marriage is in trouble, the *nakoudo* intervenes. This kind of triangular relationship is quite common in Japanese business practices as well, and again underscores the value of enlisting a middleman early in the negotiation.

Nonetheless, a vexing challenge for Western negotiators is to determine the true authority and influence of the negotiator from the Japanese organization, and to understand that company's potentially time-consuming process for ratifying agreements (Sebenius 2002). Failure to allow enough time for this process or to accurately gauge the role and influence of one's counterpart at the table can lead to unpleasant surprises.

Conclusion

What might be called "traditional" negotiation in Japan can be compatible with an MGA to negotiation, in several important ways. Both approaches emphasize:

- building long-term relationships;
- preparation, including the critical importance of understanding the other party's interests and BATNAs;
- exploring interests to look for trades;
- a focus on fairness in distributing gains; and
- using third-party neutrals for enhancing communication, resolving disputes, and ensuring follow-through.

Our interviews and review of disparate literatures suggest that tailoring the MGA for use with Japanese counterparts can be an effective way to create more valuable agreements, given these commonalities. Important adjustments must be made in implementing the approach. Specifically, negotiators should spend extra time preparing for negotiations; should take care to "match" their team to their counterparts' and to set the stage for more intimate talks; should prepare to spend time on non-task conversation and relationship-building; should caucus away from the table to address face concerns; and should understand that reciprocity and indebtedness will be salient determinants of the perceived fairness of each agreement. In addition, Western negotiators would be wise to consider using middlemen to assess potential partners' capabilities, bridge impasses, and divide value agreeably; and should expect that proposed agreements may take longer to ratify, and may be revised many times during the life of the contract.

Adapting the MGA for China

Background

Despite the staggering economic growth it has experienced in recent years, China remains in the minds of many Americans an ancient, mysterious, and esoteric land on the other side of the world (Solomon 1999). Chinese people are sometimes viewed as proud of their culture, and are often seen as having a strong sense of cultural superiority (Fang 1999). For many American managers, negotiating with Chinese counterparts can be difficult, and attempts to reach agreement frequently fail (Graham and Lam 2003).

When preparing a business trip to China, the typical American businessperson may be armed with formal and conservative suits, stacks of business cards, and Chinese words such as *Nin Hao* (“hello”) and *Xie Xie* (“thanks”). All of these can improve interactions with Chinese business managers at a superficial level, but they do not, by themselves, qualify as a strategy for negotiation success. For this, it is essential to understand the Chinese culture and the way Chinese people do business, and to develop the skills necessary for working effectively with Chinese managers.

Most current business literature suggests that Westerners and Chinese have different cultures and therefore require different approaches to negotiation. Contrary to this presumption, the research of Nancy Adler, Richard Brahm, and John Graham (Adler, Brahm, and Graham 1992) indicated that a problem-solving approach to negotiation can be effective in both Western and Eastern cultures. Adler and her colleagues found that employing techniques to search for mutual gains, coupled with having strong interpersonal skills, predicted better negotiation outcomes in China in terms of both profits and relationship satisfaction. Although developed primarily by Western theorists, evidence such as this suggests that use of a tailored version of an MGA to negotiation may work well when negotiating in China or with Chinese parties.

Root of Chinese Culture: Confucianism, Taoism, and Buddhism

Chinese people are proud of their culture. The ancient Chinese viewed their nation as the center of human civilization and named their country the “centered country.” Chinese culture has been influenced by three main religions: Confucianism, Taoism, and Buddhism. Briefly, Confucianism is focused primarily on human relationships; Taoism is most concerned with how life can be lived in harmony with nature; and Buddhism deals primarily with the immortal worlds (Fang 1997). For most Chinese, religion serves to provide more of a general philosophy than an absolute belief system.

Since 1949 and the rise of Communism in China, fewer and fewer Chinese people have declared their religion, a trend that prevailed until the advent of the Open Door policy in 1978. Today, these three religions provide both ways of understanding the world as well as ethical and moral

principles, but they tend to be embraced without generating deep or rigid adherence; the Western concept of religious devotion is absent in Chinese culture (Hsu 1963).

These diverse foundations of Chinese culture have in some ways made the Chinese open to adopting new ways of thinking, an orientation that can be beneficial to the negotiation process. But the multiple religions and flexible attitudes often confuse Westerners, who may see Chinese people as unreliable, applying seemingly inconsistent standards for dealing with people and situations. But, to the Chinese, "principles which are correct for one set of circumstances may not be appropriate for another at all, but the principles in each case are equally honorable" (Fang 1997). In this article, we will attempt to untangle the three philosophies and then examine the interplay among them.

Confucianism. Confucianism is a fundamental philosophical tradition that shaped Chinese culture for more than 2,500 years. Confucius (551–479 BC), the founder of this philosophy, maintained that a society organized under a benevolent moral code would be prosperous and politically stable and therefore safe from attack (Graham and Lam 2003). The representative book of Confucianism is *Si Shu Wu Jing (The Four Books and Five Principles)*. Elements of Confucianism have been studied from different disciplines (Fang 1997; Selmer 1998) and many cultural norms relevant to negotiation are mentioned in Confucianist writings, including *Guanxi* (see explanations later), Chinese social hierarchy, paternal leadership, and the concept of "face."

Taoism. The principles of Taoism can be found in such classic Taoist writings as *Tao-Te-Ching*, written by Lao Tsu. Taoism favors simplicity, contentment, contingency, and yielding to the rule of nature. The key to understanding Taoism lies in understanding three Taoist concepts: *Tao*, *Yin Yang*, and *Wu Wei* (Fang 1997). *Tao* is a general principle that covers the world, but it takes different forms in different conditions. The idea of change is described in *Yi Ching* and is explained by the concept of *Yin Yang*, the Chinese principle of dualism. The *yin* and *yang* are the two sides of the world, and they are always changing. The power of *Yin*, or passivity, is more enduring than the force of *Yang*, or direct action. Taoism suggests that in the end, Yin is stronger than Yang, and thus "do nothing" will be the more effective strategy. *Wu Wei* means to act without acting and to do things strategically. Taoism, therefore, predicts that direct conflict will be less successful over the long term than more flexible and enduring strategies. Clearly, Taoism, with its emphasis on context and holistic thinking, has important ramifications for negotiation in China.

Buddhism. Buddhism came to China from India in the first century AD. While Confucianism and Taoism have shaped Chinese culture insofar as human conduct in this “mortal world” is concerned, Buddhism has provided the Chinese with a kind of “immortal food” (Fang 1997). Buddhism enables many Chinese to endure hardship and suffering in the belief that they will eventually find happiness in their next lives. Buddhism encourages harmony and kindness. In Chinese Buddhism, a good monk seeks to control his desires and adapt to difficult environments. Such prescriptive norms, which encourage the Chinese to be patient and flexible, are clearly relevant to negotiation.

Other Influences: Chinese Stratagems

Ancient Chinese military strategies also influence the Chinese approach to negotiations. Such widely read classic works as Sun Tzu’s *The Art of War* and *The Secret Art of War: Thirty-six Stratagems* (written roughly five hundred years ago) describe “tricks” for defeating enemies and competitors. According to Sun Tzu, the best way to fight is to “conquer one’s enemy without fighting.” The war begins before two armies meet; it happens in the minds of the competing sides’ generals. Clearly, these principles of war can also be applied to negotiation.

The Chinese word for *negotiation*, *Tan Pan*, has a confrontational connotation: *Tan* means talk and *Pan* means judgment; *Tan Pan* is the process of using a combination of tactics to increase one’s own gains. It is generally applied to more formal (e.g., diplomatic) situations. Most Chinese managers do not use *tan-pan* to refer to talks with business partners. They prefer to use the phrase *Shang Liang*, which means “talk about the deal” or “discuss the business.” Chinese “do business” with potential partners, but “negotiate” in more formal settings or with potential enemies or rivals. This distinction suggests that to work successfully with Chinese business associates, one should not begin by negotiating specific terms and conditions. Instead, developing a relationship with one’s counterpart can change the way that he or she thinks about the interaction. Past partnerships and an existing social network are thus assets. If your negotiation counterpart does not view you as an “old friend,” he or she is likely to default to a reliance on stratagems that emphasize defeating one’s opponent. Hence, attention to relationships is extremely important.

Current Cultural Norms and Their Influence on Business Negotiation

In addition to these older and broader philosophical influences on Chinese thinking and behavior, there are at least six prevailing cultural norms that affect modern negotiations in Chinese settings.

Guanxi. Chinese are very sensitive to the difference between strangers and people that they know. Because of low trust in Chinese society (Fukuyama 1995), the interpersonal credit system is usually built on connections. The Chinese call interpersonal connections or social capital *Guanxi*. *Guanxi* connotes more than the typical relationship between Western people; it is a special relationship between individuals in which each can make strong and often nearly unlimited demands on the other (Pye 1982). *Guanxi* exists among family members but can also arise among unrelated people who have close interactions or common experiences.

Guanxi also affects business opportunities in China. Some information and resources are *never* made available to outsiders. *Guanxi* can be a substitute for more formal institutions, sometimes functioning like a credit system (Xin and Pearce 1996). Interpersonal relationships between a salesperson and the buying firm's boundary personnel can determine the company's trust in the salesperson and his or her business decisions (Lee and Dawes 2005).

In China, the *people* involved in the negotiation can be more important than the information or facts involved. Sometimes a Chinese manager will work with the right person but not the right contract. As a manager interviewed by Jan Selmer (1998) noted, connections often trump qualifications, and jobs are often given to those who are well connected rather than those who are the most talented.

This suggests that when several companies compete for a contract from a Chinese customer, the company with the best *guanxi* will usually win the contract. The responsibility for introducing the parties usually falls on the company's local representative. One Chinese manager we interviewed told us, "Because our U.S. decision-maker and negotiator come from the top of the company, they know less about the business rules in Asia. We serve as the locals who understand what Chinese suppliers are talking about, what their intention (really is)."

Much like the Japanese principles of *On* and *Giri*, *guanxi* allows one party to ask the other for a favor in exchange for a future favor. Reciprocity may unfold over a long period. Indeed, the most skillful practitioner of *guanxi* would avoid immediately attempting to repay a favor (Lovett, Simmons, and Kali 1999), which could run the risk of ruining the *guanxi* by doing so. The more effective approach would be to let the debt lie until a large opportunity arises; a Chinese proverb advises that "a favor of a drop of water deserves the reciprocation of a stream." Paying a debt with something of equal value will balance the reciprocity, while repayment with something larger tends to continue the *guanxi*. If there is no favor and repayment, negotiations may default to the more formal set of procedures and more formal language used

for outsiders. Although China is rapidly growing and becoming more open, without intermediaries, strangers — especially if one party is a foreigner — will usually be unable to make deals in China. The negotiation between strangers is only the beginning of *guanxi*; closing a deal requires much more.

Social Hierarchy. Confucius defined three kinds of cardinal relationships: (1) emperor and official; (2) father and son; and (3) husband and wife. All three are defined by hierarchy and rules of obedience, and China is, in most ways, a hierarchical society. Americans, whose society is less rigidly hierarchical and more mobile, thus often find Chinese society difficult to understand. For example, in American companies, subordinates usually address managers by their first names, which would never happen in a Chinese company, where senior managers are always addressed by their job titles (e.g., “General Manager” or “Vice President”). Geert Hofstede (1980) has characterized China as a “high power distance” culture. So, even if a high-ranking manager has not participated in a negotiation, he or she will be expected to make the final decision. After every discussion, the team will report to the decision maker and await his or her decision. The senior managers we interviewed noted that there is often one formal decision maker in Chinese companies, and that understanding his or her interests — as well as the potentially distinct interests of his or her agent — can be critical to closing a deal.

Paternal Leadership. Chinese leadership and decision-making practices flow from the hierarchical nature of Chinese society. In most Chinese organizations, key decisions are left to an individual leader. In many Western companies, where different managers may be responsible for different parts of the negotiation, decisions are often reached through consultation and consensus, which can lead to a slower decision-making process. As one manager we interviewed noted,

U.S. teams will often include a high level manager (such as a V.P.), a supply manager, and perhaps managers from financial and legal departments. The big difference between Chinese and Western teams is that in China decisions can often be made faster because they depend on only one or two key individuals within the company . . . If one looks at the Western [approach] . . . it can take much longer, because it depends on a more structured process [and] they tend to go through more layers of people.

Chinese business teams emphasize agreement within the team. They may argue internally during team discussions, but when it is time to speak to the other party, the team leader will take charge and speak for the group.

Other voices do not speak during the negotiation. Some Chinese scholars call this “paternal leadership” (Cheng 1995) because, in line with Confucian thinking, the leader is the “father” who must be obeyed. No direct argument is allowed, and advice and suggestions may be given only indirectly.

“*Face*.” In Chinese culture, a person’s reputation and social standing depend on “saving face,” a notion similar to Western concepts of dignity and prestige. *Mianzi* is defined as the person’s place in his or her social network; it is the most important measure of social worth (Graham and Lam 2003). According to H. C. Hu’s classic study (1944), the six most important categories of face in China are: (1) enhancing one’s own face; (2) enhancing another’s face; (3) losing one’s face; (4) diminishing another’s face; (5) saving one’s own face; and (6) compensation.

Face considerations are critical to the process of formulating and modifying negotiation proposals. On April 1, 2000, for example, an American airplane and a Chinese fighter plane collided off the coast of China. China declared that the U.S. was responsible for the crash and demanded an apology. The U.S. expressed “regret” but would not apologize because the collision was the fault of the Chinese pilot. Both parties seemed to be motivated by a desire to “save face” (Shakun 2003). The expression of “regret” in English translates into *Bao Qian* (“apology”) in Chinese; expressing regret without taking blame seems to be a common face-saving strategy in both cultures.

For most Chinese leaders, to be seen as “soft” by subordinates means to risk losing face. Most Chinese negotiation concessions will be made by team leaders, so gaining concessions often depends on enabling the leader to save face. One Hewlett-Packard manager in Asia told us,

Usually the small group discussions will be limited, with no more than three team members accompanying each business leader. Our side will also be a very small group. During this stage, we can discuss sensitive topics . . . It is true that having compelling data can increase your powers of persuasion. But the final result may be determined by other quite strategic considerations. In my opinion, data accounts for 60-70 percent of persuasive power, while other dynamics in the negotiation, including managing status concerns, will account for the other 30-40 percent.

Holistic Thinking. Taoism emphasizes that all things are connected. John Graham and Mark Lam (2003) argued that the Chinese think more holistically, while Americans tend to think more sequentially or reductively. In the initial stages of negotiation, Chinese teams tend first to establish agreement on general principles before moving to more

specific issues, in order to avoid or postpone direct conflict. This practice can conflict with Western negotiators who want to move to concrete and specific details (Pye 1982), yet it is consistent with the MGA emphasis on achieving an explicit commitment to seeking joint gains, and to understanding and meeting the important interests of all parties.

The importance of holistic thinking also encourages non-task focused conversation. As one Western executive with experience in China commented,

In negotiation, Westerners and Asians will focus on different aspects of the topic. The judgment of Asians depends more on feelings of friendship or long-term relations. [Asians] will talk informally about things . . . [for example,] 'once upon a time they did us a favor.' They combine topics together. Westerners are more logical. Their judgment is based on data. They are practical and realistic . . . business is only business. Although they may have argued very confrontationally, they will forget the argument when they finish the negotiation.

High-Context Culture. Like many Asian countries, China has a high-context culture. Nonverbal behavior is closely watched, and the social context (personal relations and commitments) that surrounds a formal, written document are more important than the documentation itself. This tendency arises from Taoist concepts of contingency and change. In negotiations, situational factors may be more important determinants of negotiation outcomes than process variables such as explicit communication (Wang 2004; Zhao 2002). A Chinese contract might be very simple and abstract, unlike most Western contracts, which are more specific and operational. Follow-up therefore becomes extremely important. Long-term relationships and general intentions will carry weight in negotiations about particular contracts, obligations, and schedules.

Chinese philosophies, popular stratagems, and cultural norms all create the potential for misunderstanding and impasse with Western negotiators. Nonetheless, an MGA could, with modifications, serve well as a negotiation strategy with Chinese counterparts. In the following section of the article, we describe process considerations in more detail, proceeding through the four stages of the MGA model (preparation, creating value, distributing value, and follow-through).

Preparation

Clarify Your Mandate and Define Your Team. The structure of Western and Chinese negotiation teams tends to differ in several ways. Like most East Asian teams, the Chinese team will usually be larger than the Western team (Paik and Tung 1999), with a general manager who functions as a

team leader and members who have expertise in different areas under discussion. As noted earlier, this structure stems from Chinese respect for hierarchy and authority and the consequent adherence to a large power distance (Zhao 2000); the executives we interviewed agreed with this characterization.

Team-size inequities create risks. For first meetings, it is important to make sure that your team is reasonably “matched” to your counterpart’s team, with a similar-level manager present. Bringing a smaller team to the initial meeting can unintentionally convey that your team does not intend to build up *guanxi*, or does not really want the contract. It is usually wise to have a local manager present at the initial meeting to act as an intermediary. As one interviewee remarked, “Local people can act as the cultural translator in the negotiation; they will identify the problems and explain the way the parties perceive the problems, and one another.”

Identify the Decision Maker. On the Chinese side, the actual decision maker typically does not directly participate in the negotiations (Faure 1998). A critical concession will often be made by a supervisor who is not a member of the negotiation team but responsible for the project (Miles 2003). “The supervisor makes the decision” is a common management approach in China (Fang 1999).

An American team typically has clear instructions about what its members are authorized and not authorized to do. As one executive noted, “we make sure to identify our bottom line. We won’t accept a deal below our bottom line, but we have discretion on what deal to agree to above it.” The same may not be true for the Chinese team. Because of the concept of paternal leadership, Chinese middle management usually has very limited authority in the delegation. They will report their intentions and proposals to the head of the company and wait for the feedback from the top (Lin 2001). Although their group decision-making processes can slow a Western team’s reaction to proposals for big changes, a Western delegation is likely to deal more efficiently with minor problems that arise during negotiations. Western negotiators should be patient when awaiting responses from Chinese teams who must receive approval from a top manager outside the delegation — this should not be treated as a ploy. But the American team should also identify the decision maker, even if he or she is not at the table, and seek to build *guanxi* with that leader.

Focus on Relationships. Chinese negotiators emphasize building relationships or *guanxi* with their counterparts on other teams. During the opening stages of a negotiation, it is more important to develop and nurture the relationships between the parties than to try to reach a

detailed agreement (Yang 2004). In East Asia, there is a widespread belief that “who you know is more important than what you know” (Paik and Tung 1999). In most situations, Chinese managers will initially focus more on the person with whom they negotiate than the company or the contract; they find frequent rotation of people into and out of the negotiation process disruptive and confusing (Miles 2003). Chinese negotiators will use their extensive networks to collect information, business and personal, about another person or team. They prefer to think of business partners as trustworthy friends rather than financial counterparts. For most Chinese, business is a part of *guanxi*, as much as the reverse, and the two go hand in hand. According to a survey of 163 Hong Kong-based small international companies doing business in China, personal relationships are an important factor for the success of negotiations with Chinese businesses (Leung and Yeung 1995). Conducting social meetings in restaurants and sending gifts were the two most popular means of building up *guanxi*, followed by sending samples and proposals in the prenegotiating stage (Leung and Yeung 1995).

To the Chinese, Americans are often too anxious to complete items on a meeting agenda. Chinese negotiators believe that after an hour of socializing, which can include attending banquets and drinking alcohol, it is easier to exchange information (Paik and Tung 1999). Often important commitments are made during a banquet, and detailed technical problems are discussed and worked out later during the formal negotiation (Graham and Lam 2003). To many Western negotiators, this kind of socializing is inefficient and time-consuming. An American manager in one study said, “We like to get right down to business, but it is important to be patient during this getting-acquainted phase because impatience may project a bad impression to the negotiating partners and result in an early termination of the deal” (Paik and Tung 1999).

Understand Capabilities and Build Trust. Most Chinese companies treat newcomers with caution. When they approach a new business partner, one can expect Chinese negotiators to verify the partner’s capabilities. As one Hewlett-Packard executive commented,

Usually they will provide some information about the background of their company. With such information, we can understand how long their company has been in this market segment. We will have more confidence if they can provide accurate information. When we negotiate, we will let them make an introduction about their company. And then we will send people to their company to investigate. Our people will check out whether it is the same as what they said. If things check out, we will let them send some samples to us.

It can be an arduous process for a newcomer to establish business relationships in China, but once these relationships are established, especially over long periods of time, preference and reciprocity will exist between both parties.

BATNAs and Aspirations. The bargaining tactics employed by Chinese negotiators tend to be quite different from those used by Americans. In many negotiations, the U.S. team will bring a pre-prepared contract in which little will change after it has been signed. Most details will be communicated by e-mail or telephone before negotiation. Negotiations proceed differently in China. Chinese conventional wisdom suggests that letting one's opponent know one's intention puts one at a great disadvantage in actual negotiations. More commonly, the proposal will be articulated during the course of the negotiation and the contract might not be until the last possible minute, for example, not until five minutes before the foreign negotiators are scheduled to leave the country (Faure 1998). As one Chinese manager told us:

When we negotiate, we will have a bottom line as well as a high target. If we have done better than our bottom line, we will say that the negotiation is successful. Setting a high target leads to more efforts to create gain, but whether it can be achieved is hard to say. It can be very important not to speak first in negotiation; when we do not know the bottom line of the other side, we will ask the other side to talk first.

Creating Value

Understanding Interests. In *The Art of War*, Sun Tzu explains the importance of understanding oneself and one's counterparts:

Thus, it is said that one who knows the enemy and knows himself will not be endangered in a hundred engagements. One who does not know the enemy but knows himself will sometimes be victorious, sometimes meet with defeat. One who knows neither the enemy nor himself will invariably be defeated in every engagement.

As noted previously, Chinese managers frequently find relevant information about their American counterparts through their extensive business networks. One U.S. manager said, "I was surprised that they know so much about me, not to mention my school background, and even my favorite food and hobby" (Paik and Tung 1999). Some Chinese companies keep detailed records of important clients, usually focusing on such personal habits and preferences as their negotiating partner's hobbies and even how much alcohol he can drink, rather than on business interests.

The importance of paternal leadership and collectivism in Chinese culture can make it more difficult for Chinese negotiators to understand how interests on the other side of the table might vary. As one Chinese proverb states, “A team should speak to the outside with one sound.” Managers typically sacrifice personal goals for group goals when they “commit” to a group goal (Jehn and Weigelt 1999). In China, such behavior is honored as heroism. To negotiate a successful contract, the American team may need to look past the unified front shown by their counterparts and imagine (and test, if possible) what different parties across the table need most from a deal. Proposals that meet those varying interests, with a rationale that gives “face” to everyone, are likely to succeed. Paying close attention to building individual relationships and trust, so that individual needs can be better determined, can also be worthwhile.

Developing Options for Mutual Gain. The concept of mutual gain is not foreign to Chinese negotiators. Jensen Zhao (2000) found that a “win-win” strategy was the dominant strategy described in Chinese negotiation textbooks. The Chinese manager prefers to adopt a win-win strategy because gaining *too much* from one’s counterpart is negatively perceived in Chinese culture as the practice of an evil businessman (*Jian Shang*). One manager told us that in order to negotiate successfully,

We should discover the needs of our supplier. One cannot neglect their needs simply because we are a big company and they are small. We cannot give the order . . . or insist that they must obey our rule because we earn big bucks and they don’t. Negotiation is a process of relationship building.

Notwithstanding this sentiment, Jeanne Brett and her colleagues (1998) found in an experimental setting that there were significant differences between cultural groups in achieving joint gains. U.S. and Japanese negotiators achieved the highest levels of joint gains, while the Russians and Hong Kong Chinese achieved the least.

Although it is always risky to generalize from one study, there are five plausible reasons that Chinese subjects achieved lower joint gains. First, exploring joint gains must be done in a way that prevents the counterpart from losing face. There is an old Chinese saying that “we would rather be broken as a jade than be full as a brick.” Some theorize that the Chinese people are particularly sensitive to the concept of social face, and field research finds that Chinese negotiators will be more likely to address their conflicts directly and cooperatively when they are confident that their face will be maintained (Tjosvold, Hui, and Sun 2004).

A second barrier to joint gains may be the Chinese tendency to avoid discussing sensitive topics at the table. Because of the hierarchy in Chinese negotiation teams, senior managers do not want to appear soft in front of their subordinates. Many new proposals and concessions will be made in small group banquets or parties, away from the negotiation table. Many of the executives we interviewed cited the importance of "side meetings" as a way of maintaining face while addressing sticking points. One said, "sometimes we might ask the decision-maker on the other side about the real goals of the negotiation . . . for example, we might ask him whether the real goal is to get out of the contract entirely."

A third barrier to joint gains is the lingering prevalence of "war stratagems" advice books described earlier. The connotation of the word "negotiation" can suggest a struggle or fight within a framework of conflicting interests, perhaps steering Chinese negotiators toward deception, manipulation, and other trickery in order to achieve "victory."

A fourth barrier involves time spent on non-task communication and information seeking. In the view of some American managers, Chinese negotiators often spend too much time trying to understand every aspect of the situation before proposing anything, while, conversely, the American style is to jump in with proposals. A popular Chinese saying states: "Think thrice before one act. To proceed cautiously in one's actions is deemed a sign of wisdom and sincerity." Such behavior may be driven by a culturally instilled need to avoid uncertainty (Hofstede 1980). Lucian Pye (1982: 67, 79) wrote: "After just about every session I found out that they had raised all kinds of extraneous questions for which I had to telex to New York to get answers. We were becoming an information service for the Chinese, but that seemed to be the price they expected us to pay for their business . . . The Chinese do attach great importance to accuracy, and hence they will ignore the tone of a meeting and single-mindedly press for clarification, often in a persistent if not rude fashion."

In general, negotiators should be mindful of differences in communication tendencies. Nancy Adler and her colleagues (Adler, Brahm, and Graham 1992) found that negotiators in both cultures were more successful when taking a cooperative approach, but that Chinese negotiators used the words "no" and "you" less frequently than American negotiators. Less explicit communication (i.e., high-context communication) may limit opportunities for discovery of options for mutual gain.

A fifth and final barrier is the tendency to misread whether issues have been resolved. As noted earlier, Taoism suggests that everything is changeable; Western managers interviewed by Yongsun Paik were upset that Chinese counterparts "abruptly brought up the issues that had

already been discussed in the previous meeting and did not want to talk about the issues on the agenda” (Paik and Tung 1999). Western negotiators should not assume that reaching a resolution on one issue with Chinese counterparts will close the matter to further discussion. As discussed earlier, Chinese tend to think in terms of the whole while the Americans tend to think sequentially to reduce things to parts. Chinese partners consider the commitment of working together to be more important than the resolution of details (Morris et al. 1998). In Chinese eyes, Americans tend to gloss over areas of agreement and overemphasize the disagreements (Paik and Tung 1999). Chinese negotiators prefer to set up general principles for negotiation before the details of an issue are settled, while Westerners prefer to make progress on the details (Zhao 2002). Chinese negotiators will often resist dividing the agenda into individual issues to discuss separately because, in their perspective, this inhibits flexibility. Instead, it is common for Chinese teams to bundle points of agreement and disagreement together to make a single solution, a method that often confuses their Western counterparts; and some Chinese negotiators will reopen a particular issue that had been agreed on in previous negotiations.

The MGA suggests that trying to resolve issues sequentially is a mistake. It suggests that addressing issues one by one risks missing trades that can be made across differently valued issues. The MGA emphasizes finding “packages” across issues that give each party more of the things that they value. Having an overall approach that emphasizes inventing without committing in order to create mutual gain would also seem to be acceptable. The biggest challenge may arise in finding acceptable distributions that provide “face” to the other side, and then in determining who has authority to commit to the agreement.

Distributing Value

Reciprocity. A basic Chinese bargaining strategy is the appeal to reciprocity. As one manager we interviewed commented, “Negotiation is a process of relationship building. The needs of both sides need to be satisfied in the long run.” Chinese negotiators readily accept reciprocity as a criterion for dividing gains or resolving disagreements. Concessions made by one party on one issue demand a reciprocal concession on another issue (Selmer 1998), but timing is important: making concessions during the early stages of a negotiation may be seen as a sign of weakness by Chinese counterparts (Paik and Tung 1999). According to this view, Chinese negotiators prefer to make concessions at the end of a negotiation; it is often at the last minute before Westerners realize that a deal is about to be concluded (Cheng 1995). For example, during the China-U.S. World Trade Organization negotiations in the 1990s, American negotiators were just

about to give up until a last-minute intervention by China's prime minister saved the deal (Zhao 2000).

On the other hand, precisely the opposite tendency is suggested by an example given by Xiaojing Guan (2003). When given the chance to strategically allocate a concession of one hundred dollars in four amounts (across seven opportunities), most American subjects selected the model that involved not making a concession until the very end, while 60 percent of the Chinese participants chose to spread the concession out across the negotiation.

The MGA focus on creating joint gains and distributing them according to objective criteria suggests that a simple pattern of granting concessions back and forth is not likely to lead to pareto-optimal agreements. To the degree that parties can create a process in which interests are first explored and options for gain generated, it is likely that concessions will become less painful. In any case, more research is needed to better understand how American and Chinese mental models of negotiation translate into purely distributive tendencies.

The Use of Neutral Parties. The use of neutral parties can help negotiators divide joint gains in ways all parties can accept or resolve disputes that emerge between partners. (East Asians, in general, tend to avoid seeking legal remedies for resolving conflicts.) Several Hewlett-Packard negotiators who operate in China told us that, as locals, they often help forecast difficulties and prevent potential conflicts from disrupting negotiations. "Local team members can serve as a kind of lubricant," one interviewee told us. "Because we know more about the local business people, we can buffer any confrontations or discomforts that arise on difficult issues. When a problem cannot be solved, we can buffer the effects and help everyone to move on."

Building Trust. As noted previously, the Chinese "negotiate" with enemies but "do business" with friends, and successful negotiation is built on good *guanxi*. Building trust is therefore critical to achieving successful negotiation outcomes. A Chinese proverb states: *Never do business with a man who cannot keep his promise*. Demonstrating to Chinese counterparts that you and your organization can be trusted over the long run is usually more important than any particular issue at the table. For these reasons, use of war stratagems and other "tricks" is risky. The MGA suggests an explicit commitment to mutual gain; the use of objective or acceptable criteria for dividing gains; the use of neutrals to improve relationships; and the formulation of proposals to which one can commit and which are designed to be beneficial for all sides — each of these processes supports the building of trust and

can be an appropriate part of a successful strategy for negotiating in China.

Follow-Through

The Flexible Contract. Westerners and Chinese view legal contracts very differently. In China, a contract is largely a symbol of the relationship, while in most Western countries it is sacrosanct. In China, a contract is regarded as a flexible and organic document that is subject to renegotiation as circumstances change (Paik and Tung 1999) and “Chinese contract law is more flexible than that of the United States” (Zhao 2000: 210). Because the U.S. Commercial Code is much more specific, American negotiators often seek to sign a legally binding agreement, whereas Chinese seek to “do business with” the person with an expectation that the details of the contract will be changed by the situation.

American negotiators often see negotiation and the signing of a contract as the close of a deal, but for their Chinese counterparts, signing a contract is often understood as merely the beginning of business *guanxi*. They pay little attention to the specific details of the contract. They expect good long-term *guanxi* to help resolve many ongoing differences.

This can cause problems in implementing the contract. Americans may see Chinese partners as dishonest or unreliable when they deviate from the terms of the contract. In China, the least preferred choice is to solve business disputes in court. Reverting to such behavior threatens *guanxi*. An alternative is to talk frankly with one’s business partner and to view the contract as a commitment to ongoing problem solving rather than as a set of terms that must be met, no matter what arises. One experienced manager told us, “The long-term relationship is very important for business . . . Business conditions tend to change at different stages of the agreement. Sometimes the contract needs to be revised during production. Our relationship is highly interdependent. We help the supplier to develop and grow and the supplier helps us to meet our production targets.”

Ways to Improve Follow-Through. The contrast in how Western and Chinese negotiators perceive contracts means that relationships become even more important when managing agreements operationally. Knowing the decision maker on the other side, building *guanxi* with key counterparts, invoking reciprocity, using neutral parties, holding “breakout” meetings with senior leaders, and identifying potential challenges in the future are all important elements of making sure commitments are met and disputes are settled.

Finally, knowing one’s BATNA at all times is critically important. Companies such as Wal-Mart are seeing tremendous growth in China; they have a well-known practice of improving their alternatives and then

insisting that suppliers improve their prices. Because Wal-Mart has such deep pockets, Chinese suppliers have been willing to accommodate this more “leverage-based” model in order to win or keep their business. It remains to be seen, however, whether a strategy that is so divorced from relationship-building can succeed in China the long run.

Adapting the MGA for Korea

Background

Although many international business studies use cross-cultural typologies to represent Asian or East Asian culture in their theoretical or empirical research on culture and negotiation (Hall 1976; Reeder 1987; Graham et al. 1988; Ting-Toomey 1988; Ting-Toomey, Gao, and Yang 1991; Kim, Pan, and Park 1998; Drake 2001; Hofstede 2005), but there has been little research focusing on South Korea as the subject of intercultural negotiation when compared with other East Asian countries (Tung 1991), and the research that does exist paints a rather confusing overall picture.

A High-Context, Collectivist Culture. One of the most well-known and supported claims about East Asian culture is that it is *high context*, a term coined by Edward Hall (1976). According to Hall, nations in the East with high-context cultures rely on indirect cues and implicit communications to send messages embedded in words. During a negotiation, this reliance on implicit communication is evident in the different styles of information exchange. South Korea has also been found to have a high-context culture (Kim, Pan, and Park 1998).

The second common feature of East Asian culture is a norm of *collectivism* (Ting-Toomey, Gao, and Yang 1991; Drake 2001; Hofstede 2005). According to Geert Hofstede (1980), people in collectivist cultures are more comfortable in groups, and individual interests and goals come second to the goals and interests of the group. The larger the group, the more powerful it becomes. In a business setting, a commitment to one’s company is recognized by extended commitment to work at the expense of personal time. Loyalty in a collectivist culture is paramount and often trumps other societal rules and regulations. In such cultures, the society promotes strong relationships where everyone is responsible for fellow group members.

Collectivist cultures place high value on establishing and maintaining social systems. For example, South Koreans use the word, “*O-ring*” (in English, “our”) in their expression of “my.” When a South Korean says to someone “*O-ring na-ra*,” “*Oo-ri jib*,” and “*Oo-ri byung*,” translated in English as “our country,” “our house,” and “our brother,” he is actually referring to his own country, his own house, and his own brother.

Additionally, in Korean, the term “*Songsil*” is often used to show that all employees are willing to sacrifice personal interests to the interests of the company.

Other studies suggest that people in high-context cultures are less confrontational and more comfortable with the *status quo* than people from low-context cultures, because they need to save face for themselves and others (De Mente 1988; Ting-Toomey 1991; Kim, Pan, and Park 1998). John Reeder (1987) asserts that in Asia, candor is almost always considered rude because honesty is trumped by the need to save face.

Popular literature on East Asian cultures nevertheless suggests that there are important nuances in South Korean culture that distinguish it from Chinese and Japanese cultures (Hofstede 1980; Tung 1991; Paik and Tung 1999). Research also suggests that these differences influence South Korean negotiation tactics within intraculture negotiations (Kim, Pan, and Park 1998; Moon and Franke 2000; Park and Lee 2003; Lee and Park 2004). Ultimately, these tactical differences may affect the possible outcomes in intercultural negotiations (Tung 1991; Paik and Tung 1999; Ahn and Hong 2004; Cho, Kim, and Chung 2004).

South Korea is a collectivist, high-context culture that is believed to have high levels of both power distance and uncertainty avoidance but relatively higher levels of nurturance (as opposed to dominance) (Hofstede 1980). Negotiators with a collectivistic orientation are quicker to accept positive, albeit small offers, perhaps because of a greater propensity to compromise or to avoid conflict (Leung and Tjosvold 1998; Briley et al. 2000). Jon Alston (1989) explains the concept of “*Inbwa*” (harmony in organization) and argues that Koreans can be reluctant to relay bad news. In Korean negotiations, bad news will often not be delivered until the late afternoon, when it is too late to do anything. This suggests that U.S. negotiators should listen for hints from their Korean partner about business difficulties and anticipate that problems may be communicated at the last minute so that the conversation is not focused on them.

Several studies, however, call into question the tendency toward indirect communication. In one study comparing Japanese and Korean negotiators (Graham 1988), Korean managers showed a strong sense of individualism and were three times as likely as Japanese counterparts to say “no.” They were also more likely to interrupt and issue commands during the negotiation. In another study, U.S. managers interviewed by Yongsun Paik and Rosalie Tung (1999) described Korean managers as tenacious negotiators who barely yield at the negotiating table. The same study cited Korean managers as being perceived as more flexible and adaptable to new circumstances, but because Korean negotiators were perceived to change their positions more frequently than either Japanese

or Chinese negotiators, their American counterparts sometimes also viewed them as more insincere. Additionally, most interviewees perceived Koreans' negotiating styles to be more straightforward and forthright than their Japanese or Chinese counterparts.

Hun-Joon Park and Jong-Keon Lee (2003) found in a survey of 182 Korean managers that they were willing to use "aggressive tactics" in manipulating opponent's networks. In another study, Lee and Park (2004) suggest that Korean negotiators are willing to use tactics that Westerners might consider unethical (inducing discomfort, use of competitive bargaining, bluffing, or avoidance) if they believe such tactics can be effective.

On the other hand, Dong Jin Lee and Joseph Sirgy (1999) found that Korean managers were more morally idealistic than American managers. For example, Korean managers were more disapproving than their U.S. counterparts on the practice of hiring technicians away from competitors (Lee and Yoshihara 1997), a practice they believed might interfere with group cohesiveness and raise uncertainty about the new employee's loyalty.

Inferences based on such conflicting findings can be risky. For example, Roger Volkema (2004) has suggested that negotiators in countries with higher power distance (hierarchy) will less often use competitive bargaining behaviors and will be less successful if they do. Stella Ting-Toomey et al. (1991) suggested that negotiators in countries with higher "uncertainty avoidance" (i.e., greater desire to avoid ambiguities) will more often use traditional competitive bargaining tactics. In the case of South Korea, which scores high in both power distance and uncertainty avoidance, it is unclear how to weigh these two factors (Hofstede 2005).

Kibun and Nunchi. Managers interviewed by Yongsun Paik and Rosalie Tung (1999) generally agreed that Koreans are more illogical and unpredictable than their Japanese and Chinese counterparts. They were more often perceived as relying on intuitive knowledge or "gut feeling" than logical analysis; this may be because Koreans emphasize personal feelings, known as *kibun* (Steers, Shin, and Ungson 1989). Koreans seem to rely on emotion as a guide to action more often than do the Japanese, for example, and decisions seem to be influenced by their mood or mental state at the time of a negotiation. Therefore, in order to communicate effectively with the Koreans, it is critical to use *nunchi* or "face reading." *Nunchi* refers to an ability to silently understand what the other party is thinking by reading nonverbal cues. Koreans seldom hide their feelings in public and therefore are more direct in addressing issues that Japanese or Chinese negotiators might consider too sensitive (Tung

1991). “Koreans don’t seem to fit into the docile image of Asians,” one Hewlett-Packard manager told us. “They can be very aggressive and unyielding if one does not appreciate their bargaining position. On the other hand, if one is willing to show a certain amount of sympathy and consideration to their request, even if it may not be acceptable, they often become very flexible.”

At a certain point, virtually anything can be resolved through friendly debate, which leads some U.S. executives to believe that their Korean counterparts are irrational. In the study (Tung 1991), U.S. executives did not understand how Korean managers could be adamant about trivial matters while glossing over major ones. Others cited instances in which decisions to embark on a major project were made only because another Korean competitor was doing so, not because the situation had been objectively analyzed. It would appear that paying attention to emotional mood and emotional needs would be useful in negotiations with Korean partners.

The Importance of Kwankye. The majority of interviewees in previous studies (Tung 1991; Paik and Tung 1999) revealed that *kwankye*, which refers to connections and personal relationships (similar to *Guanxi* in China), plays a particularly important role in Korea. The outcome of a negotiation with Koreans can be affected more deeply by personal considerations than by business considerations, which can lead to practices that Westerners might consider questionable. For example, some executives we interviewed noted that they had been required to meet with potential partners because they were relatives of top management.

Because of the importance of social connections, it is common to see a great deal of socializing in the earlier stages of a negotiation. While bribing managers is illegal in Korea, the practice of gift giving is still prevalent, although since the recent financial crisis, the gifts tend to be less lavish. Although the line between ethical and unethical behavior in gift giving is fuzzy, it is perceived to exist (Reid and Lee 1998).

Decision Making. The Korean approach to arriving at an agreement is similar to that of the Chinese; they begin with the general rather than the specific. Partners who argue over specific details are often considered narrow-minded and untrustworthy, and are perceived to be attempting to take advantage of the situation. It is common to hear comments such as “Let’s not spend too much time on discussion of the details. We can come back to the issue later . . . let’s move on” (Paik and Tung 1999).

Evidence suggests that Korean teams may be faster at reaching decisions than their Japanese and Chinese counterparts. There are several possible explanations. First, Korean negotiating teams are typically smaller

than Japanese and Chinese teams. Second, decision making in Korean companies is typically highly centralized in the hands of top management (Steers, Shin, and Ungson 1989), who can ratify an agreement quickly. Third, with the pace of change in recent years, Korean managers have become increasingly socialized to make rapid decisions in order to compete in a global economy.

Nonetheless, more traditional Korean negotiators may use stalling as a tactic to gain more concessions from American negotiators (Tung 1991). The use of stalling may stem from a perception that Americans are generally more eager than Koreans to reach closure within a relatively short period of time. By stalling, the Korean partner may hope to use mounting time pressure to gain larger concessions. In other cases, delays in decision making may occur because Korean companies generally do not send their most senior people to the negotiating table and members of the negotiating team often have to defer to senior managers to make major decisions.

The Nature of Contracts. The Korean view of a contract is similar to the Chinese view. Korean managers sign contracts with foreign business partners to formally initiate a relationship; a contract is essentially a symbol of this newly initiated relationship. After signing a contract, everything may be subject to change and renegotiation. Koreans do not regard the provisions of a contract as sacrosanct or binding; rather, contracts are organic documents that can change as conditions or interests change or evolve. American companies complain that a written contract does not seem to mean much in the Korean context because renegotiations of provisions are pursued so often; but it would be more accurate to view the contract as a general agreement whose provisions are less important than the relational commitment it signifies.

Preparation

Defining One's Team. Korean negotiating teams might be smaller than their Japanese or Chinese counterparts, but they do adhere to a hierarchical structure. Koreans are extremely sensitive about titles and status, and Americans dealing with senior Korean officials should make sure that their own teams include senior managers of comparable status. Senior Korean officials will not be comfortable dealing with a junior member of an American negotiating team, even one with great expertise.

Non-Task Conversation. While studies suggest South Korean negotiators are more straightforward than the Japanese, South Korea nonetheless has a high-context culture. Korean negotiators believe that their relationship with counterparts directly affects substantive negotiations. By acquiring detailed information about the histories and prefer-

ences of members of the opposing team, the negotiating team not only hopes to understand something about BATNAs and interests, but also hopes to better establish relations at the outset of the negotiation. For example, having discovered the religious affiliation of a negotiating partner, a Korean negotiator may open a conversation on religious matters to find common ground and enhance the relationship. Often a local affiliate can be of great help with this research.

Korean managers value *kwankye*. It is important to understand that introductions to possible business contacts may be based less on professional expertise than on social obligations. Therefore, efforts should be made, sometimes through third parties, to determine the reasons for an introduction. The opening of negotiations is also important and is designed to let parties get to know one another and build a relationship before the negotiation begins.

Modesty early in a relationship is also important. During the relationship-building phase, a reserved and modest approach is likely to appeal to Korean sensibilities and to pave the way for more effective negotiations. Boasting about one's company or achievements is not recommended. Focusing instead on the other person is more likely to ease tensions. The tradition of giving small gifts is still a method used to build relationships in South Korea. A gift should reflect the recipient's tastes; tastes are observed during the initial relationship-building rituals.

Negotiations in South Korea tend to take longer than negotiations held in the U.S. One manager we spoke with noted that regular face-to-face negotiations and frequent social meetings with Korean partners have led him to view his Korean business partner as something like a close friend. When this relationship has been established, exchanging information and proposing options for mutual gain becomes easier.

Creating Value

Encourage Candor. Notwithstanding Korea's high-context culture, several executives we interviewed asserted that South Korean negotiators tend to be more straightforward and forthright than their Japanese or Chinese counterparts. U.S. negotiators can encourage such directness or frankness and use it to explore interests and expedite the negotiation process. Acknowledging and voicing appreciation for a South Korean negotiator's candor from the outset may prevent him or her from hiding bad news or problematic issues later.

Manage Aggressive Tactics. South Korean culture is a high risk-avoidance culture in which individuals may feel more inclined to use

traditional competitive bargaining behaviors (exaggerating opening demands, asserting false bottom lines, stalling, etc.). As noted earlier, experimental data suggest that although Korean managers endorse stringent ethical practices, they will use aggressive tactics during a negotiation if they believe such behaviors will be effective. Our interviews supported this observation. One manager told us that negotiations with South Korean partners were more difficult than negotiations with other East Asian counterparts.

Watch Proposals Evolve. It can be particularly difficult for low-context negotiators to detect a high-context negotiator's meaningful indirect behaviors. In a high-context culture, information about interests is contained not only in the words of a particular offer, but in the way that the proposed options change over time. The high-context negotiator is more likely to infer interests and priorities from the history of prior offers, rather than from the words that accompany the offer at hand. Options that change over time may reflect greater flexibility, whereas options that do not may reflect stronger underlying interests. Be mindful as well that brainstorming might be confusing to Korean counterparts unless such a process has been explicitly discussed and understood as helpful.

Distributing Value

Issue Resolution. Korean negotiators tend to value the general more than the specific. Insisting that a particular issue be resolved before negotiations proceed is likely to be unproductive. It may also give a misleading impression of narrow-mindedness to Korean negotiators. Discussing possible options and then "bundling" them into packages toward the end of the negotiation process is likely to create more value, by allowing for "trade-offs" across issues that are valued differently by the parties. It can also help to avoid the appearance of bad faith or stubbornness in the bargaining process.

Reading the Room. Compared with more reserved Japanese and Chinese negotiators, and with more logical, data-driven Western negotiators, Koreans may at times seem irrational, becoming adamant over trivial matters while glossing over major ones. One explanation may be that Koreans are emotionally expressive people, influenced by *kibun*, the mood, at the time of negotiation. It makes sense to use *nunchi* (face reading) to assess *kibun*. If there appears to be poor *kibun*, it may be a good time to break for the day or to delay conversation about a difficult issue. It may also make sense to reestablish a relational focus, making sure that counterparts feel comfortable, well-fed, personally valued, and

socially connected. Suspending criticism or evaluative comments can help preserve or reestablish *kibun*. South Koreans score toward the *nurturing* end of Hofstede's (2005) masculinity/assertiveness scale (39) rather than at the *assertive* end where the Americans tend to fall (62). Showing a certain amount of sympathy and consideration to Korean partners' claims, even if the claims are not acceptable, can lead to greater flexibility in the ensuing discussion.

Formal Authority. Decision making in Korean companies is typically highly centralized in the hands of top management. Members of a Korean negotiating team often have to defer the authority to make major decisions to members of senior management. Moreover, communication between levels may be limited and even discouraged in some companies. Importantly, the interests of the senior leaders may differ in some ways from the interests of the negotiators representing them. It is important to allocate time to explore the interests of decision makers in Korean companies and to recognize that convincing the members of a negotiating team does not ensure that the actual decision makers will agree on a proposal for distributing value. Holding informal "relationship-building" meetings between leaders and equivalent counterparts can help break impasses and uncover interests that may not have been addressed at official negotiations.

In addition, it makes sense to allocate more time than usual for decisions to be ratified. The process of finalizing agreements can take significantly longer than the negotiations at the table. American negotiators should be aware of this dynamic and factor in additional time.

Follow-Through

Contracts. As previously noted, in Korea, a written contract is generally not considered a binding "legal" document; it more importantly signifies the official start of the relationship-building process. When conditions change, Koreans will expect to revisit specific conditions. Creating contingent agreements ("if . . . then . . ." provisions) can help to avoid some renegotiation, but if the relationship is critical, one must expect to spend time reworking the contract.

Third Parties. Third parties can play an important informal role in helping resolve business disputes. It is wise to identify potential third parties who have connections to, and influence with, the decision makers of a Korean company. Third parties have such connections through school, friends, or families. When seeking to involve a third party, remember that his or her involvement should not have a negative impact on his or her own professional network.

Conclusions

It is important for Western negotiators to cultivate relations with South Korean counterparts and to expect that negotiations will be less time-efficient and agenda-driven than in the U.S. Negotiators should expect to spend time monitoring agreements carefully and encouraging and rewarding candor. Contracts should be treated as living documents that embody a relational commitment rather than an immutable set of provisions.

It is important also to remember that Korea is changing. Since 2002, the Korean government has advertised South Korea to the world as “Dynamic Korea” because almost everything is changing quickly in Korean society. Old and new coexist during this current transitional period. For example, Korean companies are introducing performance-based pay systems rather than the *bobong* system (which compensates age and seniority using different standards for men and women). Companies’ traditional paternalistic approach is also under pressure, and the loyalty structure of many Korean companies is changing. One manager we interviewed noted that the practice of providing entertainment during business negotiations is disappearing. For the most part, Koreans seem comfortable with this change. They are realizing some of the benefits of a more individualized and less collectivistic society, especially when they can spend time with their family or friends after business hours instead of socializing among colleagues.

U.S. negotiators should be mindful not only of traditions but also of transitions. As Korean companies globalize, Korean negotiators may be more tolerant of differences in negotiation styles than in the past. More leaders in Korea have MBAs from U.S. universities and are already “Westernized.” Again, it is important to seek information on one’s counterparts prior to a negotiation. As noted in our introduction, relying on cultural stereotypes is more perilous today than ever before.

Conclusions and Recommendations

Clearly, while there are important differences between Japanese, Chinese, and Korean approaches to negotiation, there are also many similarities. Five broad themes are particularly salient across the countries we studied:

- the centrality of relationships;
- the importance of middlemen or third parties, even prior to the negotiations;
- the importance of managing status and “face” concerns;
- the increased time and ambiguity involved in ratifying agreements; and
- the flexible and symbolic nature of contracts.

Because of its emphasis on the creation of shared gains and the importance of building trust and relationships, we believe that the MGA to negotiation can be successfully tailored for use in business negotiations in Japan, China, and Korea.

Some important differences did emerge in our interviews and in the literature we reviewed, although we treat them with caution. In China and Korea, it appears more likely, relative to Japan, that one senior person will have formal authority to make decisions; in Japan (and in some U.S. companies), a more consensus-based decision process is still prevalent, and decisions may take longer. In all three countries, but particularly China and Korea, a contract is seen as emblemizing a relationship rather than codifying a list of deliverables. Korean negotiators may be more variable at the table and may be more emotionally expressive than Chinese or Japanese counterparts. While reciprocity is a critical criterion for dividing value in Japan and China, in Korea the use of favors and gifts was more often mentioned.

Geert Hofstede (1980) was an early and prolific researcher of cultural differences, and categorized culture into five dimensions for comparison: (1) PDI (power distance index); (2) IDV (individualism); (3) MAS (masculinity/assertiveness); (4) UAI (uncertainty avoidance index); (5) and LTO (long-term orientation). PDI focuses on the degree of equality between people in a country's society; a high power-distance ranking indicates that greater inequalities of power and wealth are accepted within the society. IDV focuses on the degree to which a society reinforces individual or collective achievement and interpersonal relationships; a high individualism ranking indicates that individuality and individual rights are paramount within the society. MAS measures the degree to which a society reinforces the traditional masculine work role model of male achievement, control, and power. UAI focuses on the level of tolerance for uncertainty and ambiguity within the society; a high uncertainty avoidance ranking indicates that a country has a low tolerance for uncertainty and ambiguity. LTO indicates the degree to which a society embraces long-term, forward-thinking values; a high long-term orientation ranking indicates that a country prescribes to such long-term values as savings, perseverance, etc.

In Hofstede's (2005) most recent analysis, important differences can be found across four cultures on these five dimensions (see Table One).

China scores highest on power distance; the U.S. scores lowest. Unsurprisingly, the U.S. scores highest on individualism, with Korea and China lowest. Japan scores quite highly on masculinity (assertiveness), with Korea scoring lowest (perhaps reflecting the previously discussed importance of *kibun*). Japan and Korea both score higher on uncertainty avoidance, indicating a lower tolerance for ambiguity. Finally, China scores very high on long-term orientation, and the U.S. lowest.

Table One
Cross-Cultural Comparison

	Power Distance Index	Individualism	Masculinity/ Assertiveness	Uncertainty Avoidance Index	Long- Term Orientation
South Korea	60	18	39	85	75
China	80	20	66	30	118
Japan	54	46	95	92	80
U.S.	40	91	62	46	29

(Adapted from Hofstede 2005).

While these differences are worth noting, our purpose in this article has been to try to gather information that would inform a tailored, expanded model of the MGA for use in Japan, China, and Korea. Although different aspects of the prescriptions we provide may be more or less relevant to each culture (and indeed to different negotiation contexts within them), we nonetheless provide a general model that we believe can reasonably accommodate the kinds of differences described earlier, in view of the similarities we observed.

We believe that the MGA is particularly well suited for adaptation to business negotiations in East Asian countries. It focuses not only on creating value but also on preserving relationships; it focuses on preparation and the importance of discerning interests and needs; and it focuses on finding criteria and explanations that are acceptable to parties when difficult decisions about allocating gains or losses have to be made. Finally, it focuses on the importance of follow-through and the assumption that much of what will make an agreement work or not work is the monitoring and alignment of incentives that follows.

Based on our survey of the literature and our interviews with leaders at Hewlett-Packard, we recommend expanding the prescriptions of the MGA in several ways to increase the likelihood of reaching high value agreements with business counterparts in Japan, The People's Republic of China, and the Republic of Korea. With respect to preparation, parties should strive to match their team to their counterpart team in terms of status and size, encourage the use of local middlemen to identify appropriate potential partners, verify their capabilities, and initiate the relationship-building process. In addition, they should plan to spend time on the relationship at the outset and work to create a comfortable setting for negotiations.

At the table, we suggest additional prescriptions to those embodied in the MGA model. First, negotiators should be ready to engage in non-task conversation to explore possible key interests beyond the immediate business agenda; should use breakout sessions (and informal sessions or meals) to explore sensitive issues and uncover hidden issues or interests; should pay attention to the ways that a proposal evolves in order to infer interests, priorities, constraints, and possible reservation prices; and should seek feedback on multiple “packages” to clarify interests and priorities when direct communication has not done so. Similarly, negotiators need to be particularly aware of “face” and status concerns, and be prepared to help counterparts during value-claiming conversations. We suggest as well that negotiators assume that issues will remain open for discussion until a final package is assembled. And at the table, negotiators should assume that reciprocity will be a common criterion for dividing value and prepare accordingly.

With respect to implementation of agreements, it is critical that Western negotiators allow extra time for agreements to be ratified by their counterparts’ organizations and assume that contracts will be revised many times during the life of the agreement. We recommend assigning someone to serve as liaison, responsible for following through on the agreement and focusing on the relationship.

Finally, as Sebenius (2002) wisely counsels, relying on stereotypes and seeking to mimic counterparts (“when in Rome . . .”) are both generally risky strategies in an era of rapid change within already tremendously diverse cultures and economies. Cultures are becoming less homogeneous; your counterpart may have extensive experience with (or have been educated in) Western countries. We suggest that having a prescriptive theory that emphasizes value creation will increase the likelihood of reaching successful outcomes with counterparts from other cultures. But tailoring the application of any model or theory effectively rests on a willingness to remain open at every point in the relationship to new information — about the perceptions and assumptions of one’s counterparts and the dimensions of the problem at hand.

NOTES

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1. These estimates were provided by Ben Webster of Hewlett-Packard.

2. The number of expatriates in Japan increased from 155,000 in 2000 to 192,000 in 2004. Source: Immigration Bureau. The number of registered foreigners 2004 (<http://www.moj.go.jp/PRESS/050617-1/050617-1.html>).

3. Amazon.co.jp search result for the term *ko-sho*.

4. It is also important to consider the ownership and culture of the Japanese firm; more traditional firms with Japanese ownership (e.g., Sumitomo, Mitsubishi, Kyocera) tend to be more vertical and hierarchical, while foreign-owned firms (e.g., Hewlett-Packard Japan, IBM Japan) tend to be more horizontal, and to empower employees to a greater degree. We thank Shigeru Oono of Hewlett-Packard for this observation.

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