

INTERNATIONAL BUSINESS NEGOTIATIONS

*Factors that influence the negotiation in head office
subsidiary relationship in Japan and Korea*

A case study of Philips

By

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Abstract

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Negotiations are a frequent part of international business. Parties involved in a negotiation face different problems in reaching a successful outcome. When the parties have different cultural backgrounds the faced problems becomes more complex.

The study provides for an understanding of the negotiation and influencing factors in head office subsidiary relationship. The relationship is complex since the head office and the regional subsidiaries have different cultural backgrounds. One case study is performed between a global Dutch company and two of their local subsidiaries in Japan and Korea. A framework for the analysis is developed and the factors that influence the negotiation are identified. The data were compiled from interviews from the Dutch side.

The study reveals that the negotiation between the head office and their subsidiaries is complex. Culture is not the only barrier but the cultural awareness becomes critical. Other major influencer between the head office and the subsidiaries are the organisation itself, status of the atmosphere and the relationship.

Executive summary

Global companies use regional subsidiaries in different markets. The reason for using local subsidiaries is their knowledge about the local environment, the market and its culture. One aspect that is often more or less rejected is the negotiation between the local subsidiaries and the head office, especially when they are parts of different cultures. Who should work there, local people or people from the head office? What factors influence the negotiation between the parties that belong to the same company but still think differently because of their cultural backgrounds? These are important questions that have not been studied from the HQ/subsidiaries perspective in a large extent before.

Global Royal Philips Electronics have regional subsidiaries in Japan and South Korea. Local people are working there and they serve as an important link to the customers. The relationship that the head office has with the regional subsidiaries is crucial for their business. A good relationship will improve its business and offer better support to the customers. The current situation is that the local subsidiaries have strong cultural background that influences the business, which in turn influences the relationship with the head quarters. It creates a gap in the interaction to the head office and the business units in Philips.

The findings of the research suggest that culture is not the only influence on the negotiation in head office subsidiary relationship. A model is illustrating which factors influence the negotiation in head office subsidiary relationship. Other factors such as the organisation itself, status of the atmosphere and the relationship also influence the negotiation. The organisation includes objective, negotiators, organisational culture, and cultural enhancement. Organisational culture that need to be kept strong in head office subsidiary relationship so the subsidiaries feel that they belong to the organisation. If the organisational culture is weak it is natural for the subsidiaries located in the Far East to be more regional driven. Status of the atmosphere includes conflict/cooperation, power/dependence and expectations. The relationship includes the factors responsibility, target, centralisation/decentralisation and performance. The negotiation in a subsidiary relationship is not seen as a process but just as a negotiation.

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Keywords

- **International businesses** involve similar type of activities like domestic business. The main difference is that in international business transactions take place in more than one country and market environment (Cavusgil & Ghauri 1990).
- **International marketing** is the performance of business activities that direct the flow of a company's goods and services to consumers or users in more than one nation for profit. The difference between domestic and international marketing is that the marketing activities take place in more than one country (Cateora & Ghauri 2000).
- **Business-to-business relations** business-to-business markets differ from customer markets, where there are fewer and larger professional buyers, a closer relationship between the firms and absence of intermediaries (Hollensen 2001).
- **International business negotiations** refer to win-win negotiation where both or all parties involved can end up with equally beneficial or attractive outcomes. It is a problem-solving approach where both parties involved perceive the process of negotiation as a process to find a solution to a common problem (Ghauri 2003a).
- **Cross-cultural negotiations** successful communication across cultures is a prerequisite for international negotiation and for managing people from other cultures (Cullen 2002).
- **National cultures** give the overall framework of cultural concepts and legislation for business activities (Hollensen 2001).
- **Japan**
- **South Korea**

Content

- 1. INTRODUCTION..... 1**
 - 1.1 BACKGROUND..... 1
 - 1.2 MOTIVE FOR CHOICE OF SUBJECT 2
 - 1.3 PROBLEM STATEMENT 3
 - 1.4 PURPOSE..... 4
 - 1.5 LIMITATION 4
 - 1.6 THE RESEARCH PROCESS..... 5
- 2. LITERATURE REVIEW 6**
 - 2.1 INTRODUCTION 6
 - 2.2 THE IMPACT OF CULTURE..... 10
 - 2.3 HEAD OFFICE SUBSIDIARY RELATIONSHIPS 16
 - 2.4 RELATIONSHIP MARKETING 17
 - 2.5 THE JAPANESE MARKET 21
 - 2.6 THE SOUTH KOREAN MARKET 24
- 3. A MODEL FOR ANALYSIS..... 26**
 - 3.1 BACKGROUND FACTORS 27
 - 3.2 ATMOSPHERE..... 28
 - 3.3 THE NEGOTIATION PROCESS..... 30
 - 3.4 CULTURAL FACTORS 34
 - 3.5 STRATEGIC FACTORS 36
 - 3.6 THE MODIFIED MODEL 37
- 4. METHODOLOGY..... 39**
 - 4.1 INTRODUCTION 39
 - 4.2 QUALITATIVE METHOD..... 39
 - 4.3 DATA COLLECTION 41
 - 4.4 OTHER DATA SOURCES 44
 - 4.5 DATA ANALYSIS 44
- 5. EMPIRICAL FINDINGS OF PHILIPS 46**
 - 5.1 ORGANISATIONAL BACKGROUND 46
 - 5.2 SEMICONDUCTORS 46
 - 5.3 NEGOTIATION PROCESS WITH THE JAPANESE SUBSIDIARY 48
 - 5.4 EXTERNAL FINDINGS FOR JAPAN 54
 - 5.5 NEGOTIATION PROCESS WITH THE KOREAN SUBSIDIARY 55
 - 5.6 EXTERNAL FINDINGS FOR KOREA..... 60
- 6. ANALYSIS..... 61**
 - 6.1 INTRODUCTION 61
 - 6.2 CULTURAL ANALYSIS 61
 - 6.3 RELATIONSHIP MARKETING AND HEAD OFFICE SUBSIDIARY RELATIONSHIP 61
 - 6.4 THE JAPANESE AND THE KOREAN MARKET 63
 - 6.5 NEGOTIATION PROCESS ANALYSIS..... 64
- 7. CONCLUSION 67**
 - 7.1 SUGGESTIONS FOR FURTHER RESEARCH..... 72
 - 7.2 CRITICAL EXAMINATION OF THE STUDY 72
- 8. MANAGERIAL IMPLICATIONS..... 75**
- 9. REFERENCES 78**
 - 9.1 LITERATURE 78
 - 9.2 INTERNET SOURCES 84
 - 9.3 INTERVIEW SOURCES 84

APPENDENCIES

- APPENDIX I: INTERVIEW GUIDE FOR PHILIPS BL
- APPENDIX II: INTERVIEW GUIDE FOR THE DIRECTOR AT NETHERLANDS - JAPANESE INSTITUTE
- APPENDIX III: INTERVIEW GUIDE FOR THE DUTCH EXCHANGE STUDENT IN SOUTH KOREA

LIST OF FIGURES AND TABLES

LIST OF FIGURES

1.6 THE RESEARCH PROCESS.....	5
2.1 LITTERATURE REVIEW.....	6
2.2 DIFFERENT LAYERS OF CULTURE.....	11
2.2.2 GAP ANALYSIS IN A CROSS-CULTURAL NEGOTIATION.....	15
3.1 A MODEL ILLUSTRATING THE PROCESS OF INTERNATIONAL BUSINESS NEGOTIATION...	26
3.1.1 BACKGROUND FACTORS.....	28
3.2.1 THE ATMOSPHERE.....	30
3.3.1 THE NEGOTIATION PROCESS.....	34
3.4.1 CULTURE.....	35
3.5.1 STRATEGIC FACTORS.....	37
3.6 A CONCEPTUAL MODEL.....	38
4.2.1 GLOBAL PHILIPS.....	40
4.2.2 PHILIPS AND THEIR REGIONAL SUBSIDIARIES.....	40
6.4 SALE TO JAPAN AND KOREA 1 ST QUARTER 2005.....	63
7 THE NEGOTIATION IN HEAD OFFICE SUBSIDIARY RELATIONSHIP.....	71

LIST OF TABLES

2.4 RESEARCHES RELATED TO INTERNATIONAL BUSINESS NEGOTIATIONS, HEAD OFFICE SUBSIDIARY LITERATURE, RELATIONSHIP MARKETING AND THE IMPACT OF CULTURE.....	21
3.4 LIST OF INTERVIEWS.....	43
6.5 MODEL ANALYSIS.....	65

1. Introduction

Negotiation is a process to manage relationships. It is a basic human activity that exists between husband and wife, children and parents, employers and employees, buyers and sellers and between businesses associates. In business relationships the stakes are often high and therefore it is necessary to plan and prepare the negotiation more carefully (Ghauri 2003a). When business parties negotiate the purpose is to influence the process so they can get a better deal than just accepting or rejecting what the other party is offering. It is a voluntary process between the two parties where both can modify their offers and expectations to come closer to each other. Another view of the process is to see it as problem-solving process (Ghauri 1986). Negotiation is an important part of developing business in any market. The estimated time spent in negotiations is 50 per cent of the total working time (Fraser & Zarkanda-Fraser 2002).

Business negotiations differ from other negotiations. In business it is considered the most challenging communication tasks (Woo & Prud'homme 1999) and are more and more considered a crucial part of the managerial process, which is highly relevant to the implementation of business strategies (Ghauri 2003a). International business negotiations have many characteristics that distinguish them from negotiations in the domestic markets. The process to manage relationships becomes more complex when more than one culture is involved (Lewicki et al. 1994). Deals are drafted between business people from different countries having different cultural backgrounds. National culture programming leads to patterns of thinking, feeling and acting. Successful negotiations require understanding of each party's culture and may also require adaptation of the negotiating strategy so it is consistent with the other party's culture (Hollensen 2001).

Negotiation is important, especially in business-to-business markets where companies build long-term relationships. Establish, maintain and foster relationships are of prime importance for the market transaction to take place (Ghauri 2003a). In business-to-business relationships Western firms are increasingly doing business with firms from Asia. Moreover Western firms are opening offices and sales subsidiaries all over the world and firms are facing greater problems in negotiating with local sales offices often manned with local managers. It is therefore, interesting to investigate how culture interfere the negotiation behaviour of parties coming from different countries and cultures, even if they officially belong to the same organisation e.g., HQ (head quarters)/ subsidiaries.

1.1 Background

Aharoni's study (1999) in 1966 offered a base to Kapoor's study (1970) that was perhaps one of the first who made research on international business negotiations. Aharoni's study (1999) about the foreign investment decision process says that commitments often emerge from

negotiations with potential partners. Kapoor's study (1970) gives the insight that the nature of the relationship between the negotiators from corporations and from the host government affects the negotiation process. Also different interest groups who express their views in different ways influence the process. To better approach the negotiation, an understanding of the groups and variables affecting the negotiation is essential. The importance of environmental differences has been documented for more than two decades (Ghauri 1983). Environmental differences create difficulties and interferences in the interaction of the negotiation. The different backgrounds and its influence on the negotiation is today still of great interest.

Many studies conducted are focusing on the effect of culture in specific countries. John Graham (2003) has done studies in the negotiation styles of business people in 16 countries with 18 different cultures. Countries like Japan, Korea, Taiwan, China (northern and southern), Hong Kong, the Philippines, Russia, Czechoslovakia, Germany, France, the United Kingdom, Spain, Brazil, Mexico, Canada and the United States have been studied. These countries are considered of importance since many global companies do business there (Cavusgil, Ghauri & Agarwal 2002).

Graham found that there were significant differences in the negotiation process in the countries that he studied. Although negotiators from different countries obtained the same outcome, the way that they negotiated to obtain the outcome was different. In Japanese negotiations, higher profits are associated with making opponents feel comfortable. This suggests that there are many different ways to negotiate agreements that are, on average, worth the same value, and that a negotiator must employ the process that "fits" the culture they are in (Lewicki et al. 1994).

Graham provides two important lessons from the studies he made. The first lesson he provides is that Koreans and Japanese, for example, negotiate in very different ways even though they have similar styles and are a part of the Oriental culture. For that reason it is important to study one country at the time. The second lesson is that "Japan is a strange place. I don't mean that in a negative way. It's just that on almost every dimension of negotiation style we consider, the Japanese are on or near the end of the scale. The Japanese approach, however, is most distinct, even unique" (Graham 2003, p. 31). However most of the previous studies deal with buyer-seller relationships.

1.2 Motive for choice of subject

There has been a dramatic growth of international trade over the last five decades both in terms of volume and in complexity. One example of the increased complexity is that service offerings are now mixed with products. No company can today act without interference and competition, that can come from anywhere of the world (Cateora & Ghauri 2005). The global ways of doing business have changed the basic requirements of how to do business. Cross-

cultural negotiations are a field of considerable interest in this age of the global economy (Herbig & Gulbro 1997). A new focus and a new thinking are required to keep up with the global competition and the changing environment. One part of the new thinking is to understand, make agreements and do business with people in other countries and from new cultures. That is a challenge that has to be handled through international business negotiations. It is a complicated process and the risk of misunderstanding increases when doing business with someone from another culture (Ghauri 2003a).

Japan is today the world's second largest economy, market, competitor and partner, after the United States. It is also the home of many of the world's leading companies (Alpert et al. 2001). That is the most important reason for companies that operate in the global market to have knowledge about the second largest economy and how to successfully do business there. The fact that 15 % of the world's economy is in Japan and that 25 % of the world's high-tech products are made in Japan are two other important reasons that makes the market more attractive (Euro technology). Japanese companies have strong corporate culture and this is an important reason for their success in the worldwide marketplace (Apasu, Ichikawa & Graham 1987). Japan has recently run substantial trade surpluses with many Western countries, including the USA. One reason for these ongoing trade surpluses may be that Japan understands the West better than the West understands Japan (Alpert et al. 2001).

Korea on the other hand is an expanding market and it is statistically the second largest consumer market in Asia, after Japan (Choe & Pitman 1993). That Korea is second largest in the consumer market influence the business-to-business sector. One company supply to another company that in turn sell to the consumer market, and the business can increase for the first supplying company. To capitalize on this economic opportunity will require new approaches by Western businessmen (Choe & Pitman 1993).

While a number of researchers have focused on different aspects of negotiations in Japan (Graham 2003; Molnár 1997; Moran & Stripp 1991) we know little about head office subsidiary relationship that is located in Japan and South Korea. This study investigates the process in international business negotiation with a focus on business in Japan and South Korea (hereinafter referred to as Korea). The differences observed in Asia are often consistent with the countries' historical and cultural differences (Deshpandé, Farley & Bowman 2004).

1.3 Problem statement

The dimension in this thesis is that it is difficult to negotiate with other cultures even if the parties belong to the same company. Global companies employ local staff in their subsidiaries to be more responsiveness to the local environment, but still face problems of managing these relationships. Culture has a major influence and consequently the research objective is to understand an international business negotiation in head office subsidiary relationship between a European company and their offices in Japan and Korea? Secondly, the aim is to

analyse what factors influence the international business negotiation and why? An attempt is made to point out which factors influence the process and how? Thirdly and finally, the study seeks to develop a framework for description and analysis of the international business negotiation in head office subsidiary.

To summarize, the research problem can be presented in the following sub-questions:

- What are the factors that influence negotiations in a long-term business relationship between parties having different cultural background?
- How does the management of the negotiation process change this relationship?
- How can companies make the cross-cultural negotiation more effective with their own subsidiaries?

1.4 Purpose

The purpose of the study is to analyse how differences in the cultural background of the parties influence the international business negotiation in head office subsidiary. It is also to develop a conceptual framework for negotiations in the HQ/subsidiary relationship in order to understand the negotiation, the most crucial and important factors and their influence on it.

This purpose can be divided into three sub-purposes:

- To explore the nature of the negotiation between a head office and its subsidiary.
- To understand how companies manage negotiation process in different markets and with different subsidiaries.
- To understand the role of negotiations on long-term HQ/subsidiary relationship.

1.5 Limitation

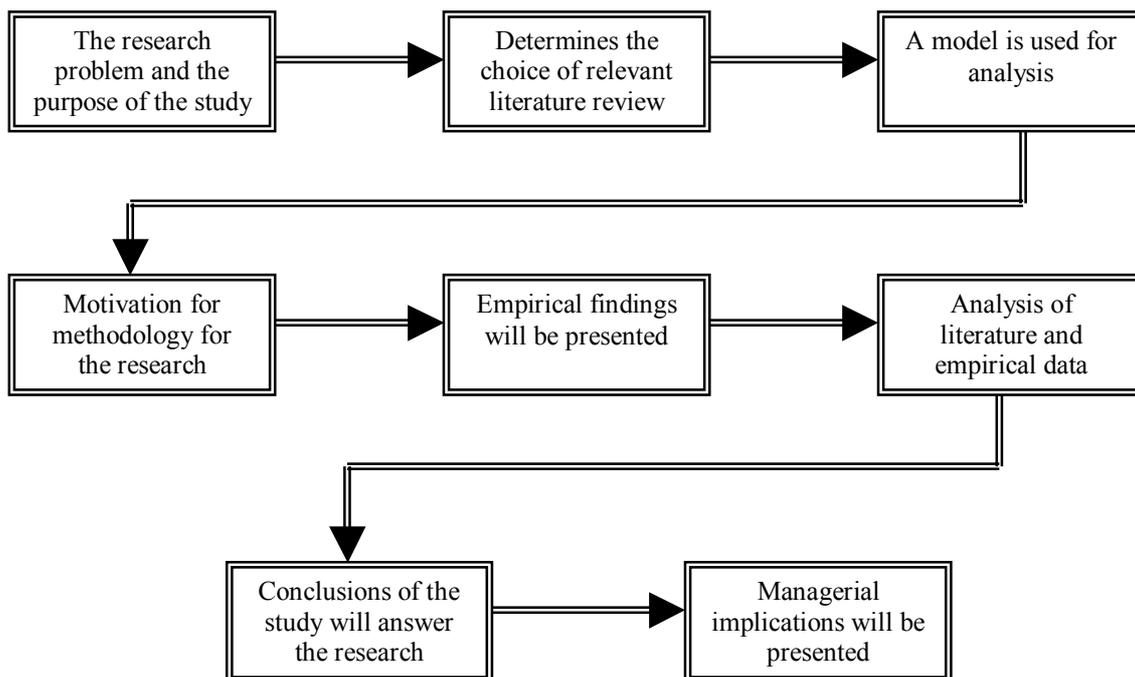
The research is limited to perform a single in depth case study of Philips Semiconductors BL Personal Entertainment Solutions and the negotiations with their own subsidiaries. The Japanese and the Korean market are in focus within the topic.

The case of Philips will not be compared to other companies. The negotiation process is examined exclusively from the company's internal perspective and will be contrasted with the literature available on the topic. The study intends to map processes that occurred in the near past or present.

1.6 The research process

The thesis will be organised in nine chapters. The first introductory chapter contains subject, purpose and problem of the research. In the following chapter a literature review will be developed and the reader will be introduced to theories that serve as a base for the later parts of the report. The next chapter offers a model for analysis. Chapter four is a description of the methodology chosen for the research. In chapter five, the empirical chapter, the company will be presented along with the empirical findings gathered through interviews. Chapter six consists of analysis where the data from the empirical part is analysed. Chapter seven concludes the thesis by the main findings. Chapter eight consist of managerial implications, which is suggestions for companies like Philips, how to more successful manage the negotiations with head office subsidiary. Finally chapter nine presents a list of the bibliography, followed by appendix.

Figure 1.6 The research process

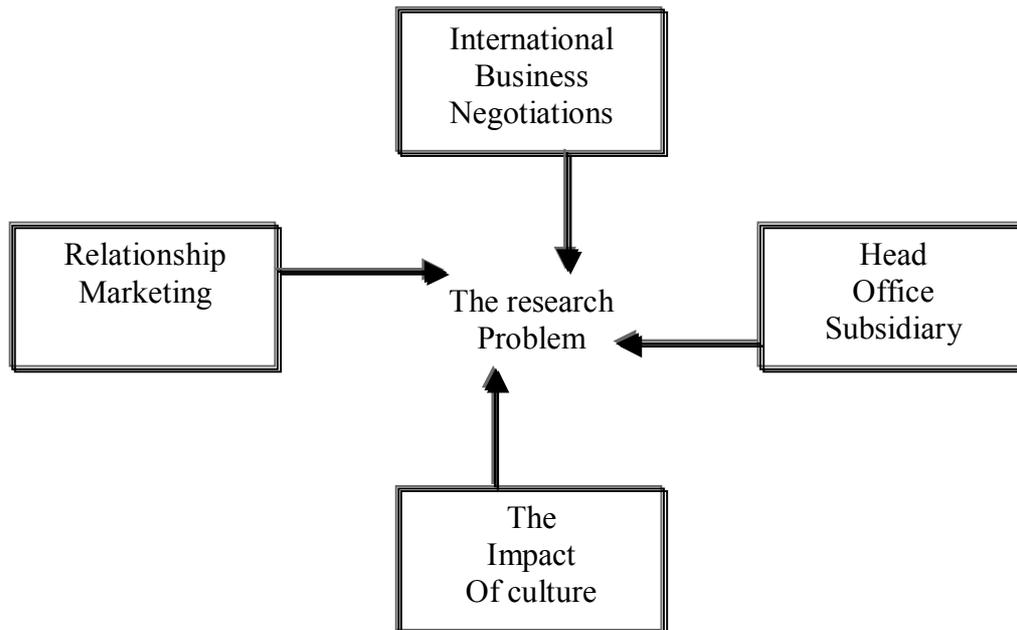


Source: Fjellström, Daniella (2005)

2. Literature review

Since all qualified research builds on prior knowledge (Ghauri & Grønhaug 2005) the literature review aims to illustrate the important and relevant parts of the research field to give a good overview. The review will combine information from different fields to consent with the research problem as illustrated by figure 2.1.

Figure 2.1 Literature review



Source: Fjellström, Daniella (2005).

Figure 2.1 illustrates four different parts of theory that will be used, to complementary fit the research problem. International business negotiations literature handles the different aspects of negotiations and the impact of culture increases the cultural awareness. Head office subsidiary literature is used since the relationship under study goes under this topic and relationship marketing considers the importance of business relationships.

2.1 Introduction

“Negotiation” steams from the Roman word *negotiari* meaning “to carry on business”. It was true for the ancient Romans as it is for most businesspersons of today that negotiations and business involves hard work.

(Hendon, Hendon & Herbig 1996: 1)

Negotiation is partly based on bargaining. The importance of bargaining theory increased after the emergence of trade unions. In the beginning it was identified in the field of

economics. According to the bargaining theory, when parties have a conflict of interest and desire to solve the same for their mutual benefit, they have to bargain (Ghauri 1983). Bargaining means haggling over price that goes on in a yard sale, bazaar or flea market. The objective of the parties is to maximize their own benefit, often at the expense of the other party. The relationship between the parties is competitive in nature, where an increase in the benefit of one party is a decrease of the benefit of the other. It refers to a typical win-lose situation with limited resources, and everybody wants to maximize his share of the resources. The parties are more competitive and opportunistic and they don't share information with the other party unless they have to. Sometimes the words bargaining and negotiation are used interchangeably and other times they are used as if they mean different things. Whereas negotiation is the more formal, civilized process that occurs when parties are trying to find a mutually acceptable solution to a complex conflict (Ghauri 1983; 2003a; Lewicki et al. 1994; Bacharach & Lawler 1981). Bargainers who are problem solvers settle disputes more efficiently than the people that undertake adversarial positions (Mintu-Wimsatt & Gassenheimer 2000).

In 1950 game theory was applied on bargaining, where rules described how rational actors choose their strategy. It is an alternative view of negotiation to understand it through the study of games. Game theory can be used since the relationship is considered complex and the relationships can be studied through simulations in laboratory settings. By controlling as many variables as possible, it is doable to systematically probe what is happening. "Game" in this sense refers to a behaviour that is studied in an artificial environment rather than in real-life. It is close to simulation and experiment. A game is an artificial, simplified and reconstructed model of reality. There are four ways to study negotiation as a game; game-theory games, distribution games, economic-exchange games, and role-playing games. (Ghauri 1983; 2003a; Lewicki et al. 1994)

Negotiation is a highly complex social process (Lewicki et al. 1994). It is a process that takes place in a particular context. The context, the nature of the parties involved and the degree of formality, determines the skills required in any specific negotiation situation (Woo & Prud'homme 1999). Additionally, it has been viewed as a universal phenomenon (McCall & Warrington 1989). Negotiating is to communicate and effective negotiating is about good communication. Poor communication kills deals (Salacuse 1992). A negotiation, especially a business negotiation, is conducted between at least two parties with the aim being to reach an agreement. Each party is then assumed to strive toward achieving planned and formulated business goals as well as toward satisfying known (or unknown) needs. Communication and cooperation are two important conditions for the successful outcome of a negotiation (Molnár & Molnár 1999). In negotiation both parties need the other. A buyer cannot buy unless someone else sells and vice versa; each is dependent upon the other. This situation of mutual dependency is called interdependence, which means that the parties involved have an opportunity to influence the other party, and many options are open to one party. Managing

those options can be difficult because of the complexity of the interdependent relationship (Lewicki et al. 1994). Negotiation is a practical way of resolving a conflict when the following conditions hold true (Lewicki et al. 1994):

1. There are two or more parties, individuals, groups or organisations that interact in an interpersonal or intergroup process.
2. There is a conflict of interest between two or more parties and they must search to resolve the conflict.
3. The parties negotiate because they think that they can get a “better” deal than simply taking what the other side offers.
4. The parties search for agreement rather than to fight openly.
5. The parties expect to give and take, they will both need to modify or give in somewhat on their opening statement, request or demands.

Negotiations take place within the context of the four Cs⁷. These are common interest, conflicting interest, compromise, and criteria. Common interest considers the fact that each party in the negotiation shares has or wants something that the other party has or does. Without a common goal there would be no need for negotiation (Hendon, Hendon & Herbig 1996). Negotiation can also be called integrative bargaining and it refers to win-win negotiation where both or all parties involved can end up with equally beneficial or attractive outcomes. Everyone can win. This is a problem-solving approach to find solution to a common problem (Ghauri 2003a).

Interdependent goals are an important aspect of negotiation. The structure of the interdependence between different negotiating parties determines the range of possible outcomes of the negotiation. For instance, if the interdependence is a win-loose situation, where one party gains and the other loses the focus of the negotiation will be how to divide a fix amount of outcomes. Another type of interdependence occurs in a win-win situation, which is when the solutions promote mutual gains. The fundamental structure of an integrative bargaining or the negotiation situation is that it is possible for both sides to achieve their objectives (Lewicki et al. 1994).

Negotiating on a global scale presents great opportunities (Moran & Stripp 1991). The global marketplace can provide corporations with additional markets, more customers, increased profits, increased product/service life cycle, opportunity to gain an edge in reputation and credibility, an arena to fight foreign competition and an opportunity to keep up with domestic competitors. The most important reason for globalisation is survival (Moran & Stripp 1991).

In a mono-cultural environment, the negotiation process is more predictable and precise, since the negotiators do not have to be concerned with differences of language or culture. Behaviour in negotiation is consistent within cultures and each culture has its own distinctive

negotiation style. Cross-cultural negotiations are negotiations where the negotiating parties belong to different cultures and do not share the same ways of thinking, feeling and behaving. In a cross-cultural negotiation it is important to understand the cultural differences, and to modify the negotiation style accordingly (Woo & Prud'homme 1999).

“Know thyself”, it is in the Koran and in the Bible, it is central to Confucianism and it is a driving force in Buddhism. Socrates has said it and according to Freud its absence is at the heart of many modern men and woman’s problem (Foster 1992). In international business the purpose of “know thyself” means, “know your own culture”. To do business in another culture it is necessary to first know your own culture. It is important to understand the ways in which business can be different, to be able to understand how it can differ. If it is understood why we do something in a certain way, it can be easier to understand and gain insight into why “they” do something in a certain way (Foster 1992).

National culture differences may affect determinants of business performance in one or both of two ways that are often confused in discussions of cultural specificity. The most visible cultural differences are in averages of measures, which reflect that different culture defining factors are no doubt present to a greater or lesser degree in various national cultures. Second, there is a more trivial potential cultural difference that may have major implications for strategic management. Organisational culture is the pattern of shared values and beliefs that help people understand how an organisation functions. Four classifications (Deshpandé, Farley & Bowman 2004) have been developed:

- Competitive culture: characterised by an emphasis on competitive advantage and market superiority.
- Entrepreneurial culture: emphasises innovation and risk taking.
- Bureaucratic culture: characterised by regulations and formal structures.
- Consensual culture: emphasises loyalty, tradition and internal maintenance.

Business-to-business markets differ from customer markets (Hollensen 2001). There are fewer and larger professional buyers, a closer relationship between the firms and the absence of intermediaries. The relationship between firms is important since they often are unwilling to break the relationship. To change supplier that can be of high cost and can also be difficult to find. In a business-to-business relationship there is often a high degree of customisation and a strong component is the face-to-face interaction (Hollensen 2001).

Relationship commitment is considered to be central to a successful partnership. It encourages alliance partners to take a more integrated approach to ongoing negotiation. Committed parties have different priorities. Committed parties are less likely to take a heavy-handed approach toward negotiation. They understand that using coercion and legalistic language is not appropriate for a business relationship that is designed for long-term success (Lin & Miller 2003). Face-to-face negotiations with the customer are the strength of the sales

job. Negotiations are necessary to reach an agreement on the total exchange transaction, comprising such issues as the product to be delivered, the price to be paid, the payment schedule and the service agreement (Hollensen 2001).

2.2 The impact of culture

Attitudes, beliefs, customs, laws, values and traditions are imbedded in the culture that affects the negotiation and its communication style (Mintu-Wimsatt & Gassenheimer 2000). The culture also dictates how people process and interpret information and also affects which strategies and tactics to pursue (Mintu-Wimsatt & Gassenheimer 1996). Culture is something we learn as we grow in our environment. It can be seen as a “toolkit” of habits, skills and styles from which people construct “strategies of action”. Once a negotiator is aware of another culture’s “toolkit”, he or she should be able to anticipate and understand the behaviour that takes place in the bargaining environment and respond with confidence (Hawrysh & Zainkowsky 1990). Cultural understanding is difficult and sometimes painful to attain, but the rewards can also be high (Woo & Prud’homme 1999). Successful communication across cultures is a prerequisite for international negotiation and for managing people from other cultures (Cullen 2002). Successful foreign firms are continually providing international training for their employees in order to create a higher level of awareness of both the cultural life and business practices of foreign countries (Montagno 1996). Culture has an impact on business negotiation (Usunier 2003).

Culture is largely neglected as a variable influencing the process as well as the outcome of cross-cultural negotiations. The importance and the need to empirically study culture in the context of negotiation have been repeatedly stressed (Fraser & Zarkanda-Fraser 2002). Cultural differences can cause four different kinds of problems in international business negotiation; language, non-verbal behaviours, values, thinking and decision-making process. Where the last mentioned has more serious problems (Graham 2003). Culture force people to view and value differently the many social interactions inherent in fashioning an agreement (Herbig & Gulbro 1997). Cultural factors must be bridged. It is naive to venture into international negotiation with the belief that “after all people are pretty much alike everywhere and behave much as we do.” Even if they wear the same clothes as you do, speak English as well as (or better than) you, and it would be foolish to view a member of another culture as a brother in spirit. That negotiation style effectively used at home can be ineffective and inappropriate when dealing with people from another cultural background; in fact its use can often result in more harm than gain (Herbig & Gulbro 1997).

Different cultural systems can produce divergent negotiation styles. Styles shaped by each nation’s culture, geography, history, and political system. Unless you see the world through the other’s eyes, you may not be seeing nor hearing the same. The two business negotiators are separated from each other not only by physical features, a totally different

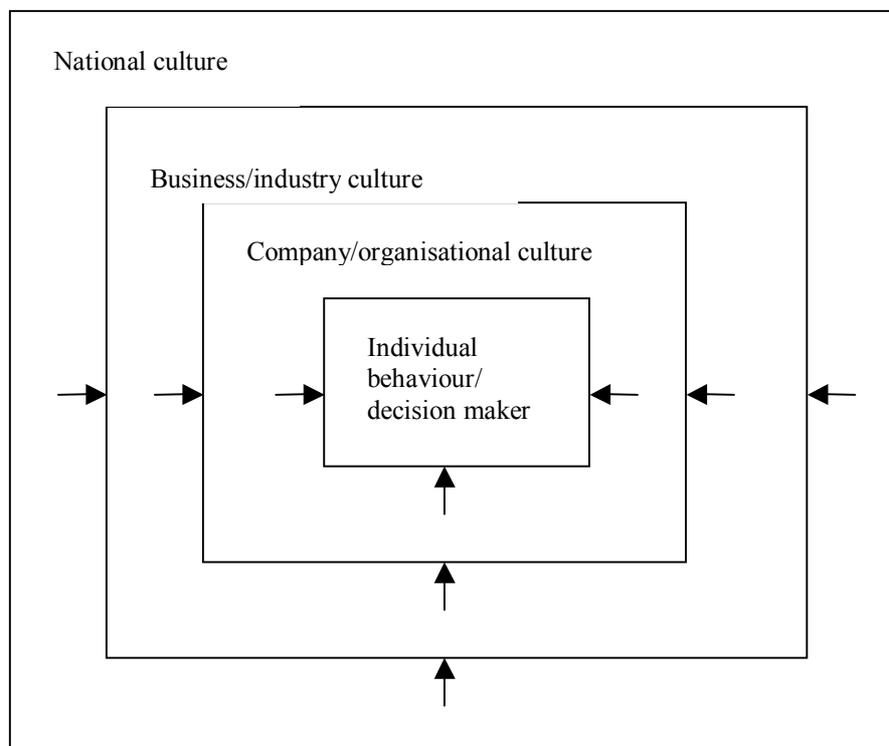
language and business etiquette, but also by a different way to perceive the world, to define business goals, to express thinking and feelings, to show or hide motivation and interests (Herbig & Gulbro 1997).

“A fish out of water” or “A bull in a China shop” are just two out of many phrases used to summarise the experience of doing business in foreign countries (Foster 1992).

Cross-cultural information is not about turning you into them, turning them into you, or making you more like one another. It’s not about “my way” versus “your way” or “good” versus “bad”. It is about the adjustment of expectations, about the preventive versus curative action, and ultimately, about increasing your own options (Foster 1992). Culture impacts negotiation in four ways: by conditioning one’s perception of reality, by blocking out information inconsistent or unfamiliar with culturally grounded assumptions; by projecting meaning onto the other party’s words and actions; and by impelling the ethnocentric observer to an incorrect attribution of motive (Hendon, Hendon & Herbig 1996).

Different layers of culture influence the behaviour of the individual person. The national culture determines the values that influence business/industry culture that then determines the culture of the individual company. Figure 2.4 illustrates a typical negotiation situation between a seller in one country and a buyer in another country (Hollensen 2001).

Figure 2.2 Different layers of culture



Source: Hollensen 2001: 161.

Culture aspects on different levels, which are interrelated in a complex way, influence the behaviour of the individual buyer or seller. Each of the different levels influences the individual's probable behaviour. Following are the layers:

- *National culture* gives the overall framework of cultural concepts and legislation for business activities.
- *Business/industry culture* is the certain competitive framework within a specific industry where the players know the rules of the game. This level is very much related to a branch of industry, for example oil business and electronics have similar characteristics across national borders.
- *Company/organisational culture* consists of the shared values, beliefs, meanings and behaviours of the members of a function within an organisation (e.g. marketing and top management).
- All the other levels affect *individual behaviour/decision maker*. In the interaction environment, the individual becomes the core person who interacts' with other actors.

It was hypothesised that in resolving conflict and developing business relationships through sales negotiation exchanges, four aspects of culture are of particular importance (Fraser & Zarkanda-Fraser 2002):

1. Norms of behaviour and expression of one's feelings;
2. Norms of relationship building;
3. Value of group relationships and the way people relate to in and out groups;
4. The value of time and attitude towards the future.

Negotiators in international negotiations, by definition, have different national cultural backgrounds. The word "cultural" is used in a sense of "collective programming of the mind which distinguishes the members of one category of people from another" (Hofstede & Usunier 2003, p. 137). Besides our national component, our cultural programs contain components associated with our profession, regional background, sex, age group and the organisations to which we belong. National cultural programming leads to patterns of thinking, feeling and acting that may differ from one party in an international negotiation to another. The most fundamental component of our national culture consists of values. Values are acquired in the family during the first years of our lives, further developed and confirmed

at school and reinforced in work organisations and in daily life within a national cultural environment (Hofstede & Usunier 2003).

- *Power distance* is the extent to which the less powerful members of organisations and institutions accept and expect that power is distributed unequally. This represents inequality, but defined from below, not from above. It suggests that a society's level of inequality is in the followers as much as in the leaders. Power and inequality, of course, are extremely fundamental factors of any society, and anybody with some international experience will be aware that "all societies are unequal, but some more unequal than others"(Hofstede & Usunier 2003).

- *Individualism* has the opposite *collectivism*. This describes the degree to which the individuals are integrated into groups. On the individualism side, we find societies in which the ties between individuals are loose: everyone is expected to look after him/herself and his/her family. In collectivism, we find societies in which people from birth onward are integrated into strong, cohesive in groups; often their extended families (with uncles, aunts and grandparents) continue protecting them in exchange for unquestioning loyalty. The word "collectivism" in this sense has no political meaning: it refers to the group, not to the state. Again, the issue addressed by this dimension is an extremely fundamental one, relevant to all societies in the world (Hofstede & Usunier 2003).

- *Masculinity* vs. its opposite *femininity*. The distribution of roles between the sexes is another fundamental issue for any society to which a range of solutions are found. Hofstede's analysis revealed that woman's values differ less among societies than men's values, if we restrict ourselves to men's values (which vary more from one country another), we find that they contain a dimension from very assertive and competitive and maximally different from woman's values on the one side, the modest and caring and similar to woman's values as the other. The assertive pole is called "masculine" and the modest, caring pole is called "feminine". The woman in the feminine countries have the same modest, caring values as the men; in the masculine countries they are somewhat assertive and competitive, but not as much as men, so that these countries show a gap between men's values and woman's values (Hofstede & Usunier 2003).

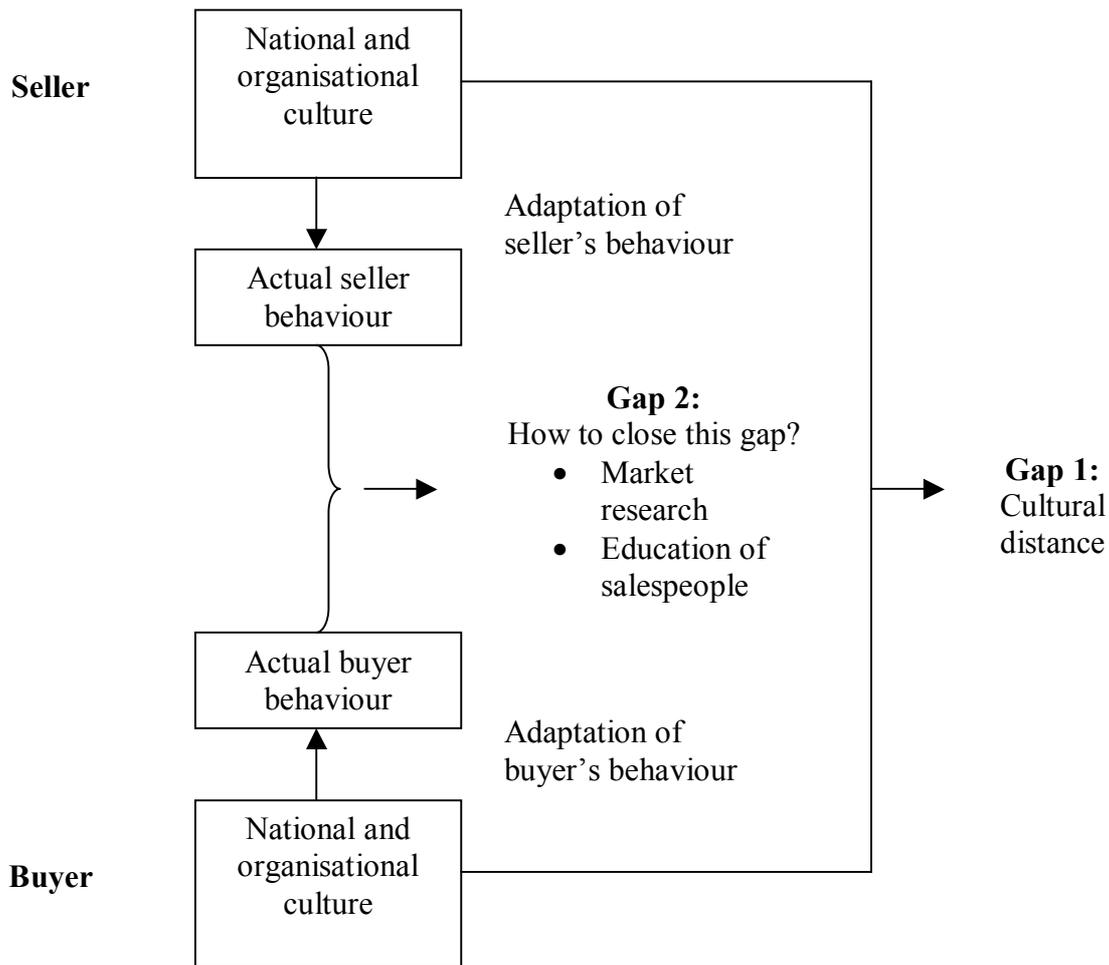
- *Uncertainty avoidance* refers to man's search for truth. It indicates to what extent a culture programs its members to feel either uncomfortable or comfortable in unstructured situations. "Unstructured situations" are novel, unknown, surprising, and different from usual. Uncertainty-avoiding cultures try to prevent such situations by strict laws and rules, safety and security, and on the philosophical and religious level

by a belief in absolute truth: “There can only be Truth and we have it”. People in uncertainty-avoiding countries are also more emotional and motivated by inner nervous energy. The opposite type, uncertainty-accepting cultures, are more tolerant of behaviour and opinions different from what they are used to; they try to have as few rules as possible, and on the philosophical and religious level they are relativist and allow many currents to flow side by side. People within these cultures are more phlegmatic and contemplative, and not expected by their environment to express emotions (Hofstede & Usunier 2003).

The main characteristics from Hofstede’s cultural forces are that Japan has very high masculinity and high uncertainty avoidance (Hofstede; Khalé 2003). South Korea has low masculinity and quite high individualistic behaviour. The Netherlands has high individualistic behaviour and low masculinity (Hofstede; Khalé 2003).

In negotiation situations, the most fundamental gap influencing the interaction between buyer and seller is the difference between their respective cultural backgrounds. This cultural distance can be expressed in terms of differences in communication and negotiation behaviours, the concept of time, space or work patterns, and the nature of social rituals and norms. The cultural distance between two partners tends to increase the transaction costs, which may be quite high in cross-cultural negotiations. Both the buyer and the seller will adapt their own behaviour in such a way that they think it is acceptable to the other party (see figure 2.2.2). In this way, the initial gap 1 is reduced to gap, through adaptation of the behaviour. But neither the seller nor the buyer obtains full understanding of the party’s culture, so the final result will often still be a difference between the cultural behaviour of the seller and the buyer (gap 2). This gap can create friction in the negotiation and exchange process and hence give rise to transaction costs. Gap 2 can be reduced through market research and the education of salespeople. However, salespeople bring different “baggage” with them in the form of attitudes and skills that result in different stages of intercultural awareness. Each stage of intercultural awareness requires a different training method. Furthermore, face-to-face communication skills remain an important topic in international sales training. This is especially true in consultative selling, where questioning and listening skills are essential in the global marketing context (Hollensen 2001).

Basic to negotiating is knowing your own strengths and weaknesses, but also knowing as much as possible about the other side, understanding the other’s way of thinking and recognizing his or her perspective. Even starting from a position of weakness, there are strategies that a salesperson can pursue to turn the negotiation to his or her advantage. Expatriate salespeople negotiating in foreign cultures often experience a culture shock when confronted with a buyer. Culture shock is more intensely experienced by expatriates whose cultures are most different from the ones in which they are now working (Hollensen 2001).

Figure 2.2.2 Gap analysis in a cross-cultural negotiation

Source: Hollensen 2001: 576.

Low context countries like the Netherlands rely on formal communication that is often verbally expressed. Informal messages are less important for understanding. In high context cultures especially like Japan but also Korea, less information is given verbally and content variables like individual factors, status, associations, values and position in society need to be considered in order to understand the message. The explicit non-verbal message is an important part of the communication in high context cultures (Mintu-Wimsatt & Gassenheimer 2000).

The different ways of communicating are often mentioned as a barrier towards achieving a beneficial outcome. Negotiators from low context countries often spend much time confirming agreements such as business contracts. In contrast, people from high context cultures solidify agreements through personal relationships and informal interactions and they are often more effective in producing mutually beneficial outcomes. The need to generate a formal agreement among low context countries negotiators has often been considered a major pitfall in cross-cultural negotiations (Mintu-Wimsatt & Gassenheimer 2000).

2.3 Head office subsidiary relationships

The MNC can be conceptualised as an organisation made up of geographically dispersed units that are engaged in various activities in different markets. Subsidiaries, being operative in different markets, confront different market conditions, shaping their behaviour and growth.

(Andersson 2003: 8)

Multinational companies (MNC's) seek to combine global integration with local adaptation and together manage the complex international environment. Subsidiaries are an important driver for MNC development. Each subsidiary operates in its own unique cultural environment that constraints or determines its behaviour, they become involved in business activities and relationships separate from those of the rest of the corporation. As a result they tend to become increasingly host-oriented in their cultural surrounding. Subsidiaries increase their influence within the MNC on the basis of actively creating knowledge in their own business networks (Andersson 2003).

In the context of the MNC, subsidiaries are connected to headquarters by ownership ties. This relationship between the head quarter and its foreign subsidiaries are highly complex and challenging (Geringer & Hebert 1989; Gold & Campbell 2002). There seem to be a negative relationship between subsidiary growth and control by headquarters. Control is defined by Geringer and Hebert (1989 p. 236f) as the "process by which one party influences the behaviour and output of another party through the use of power, authority and a wide range of bureaucratic and informal mechanisms". Many subsidiaries have specialised resources on which the rest of the MNC is dependent (Forsgren & Pedersen 1998; Papanastassiou & Pearce 1998) it has been noted that resource development occurs at the level of individual subsidiaries rather than solely at head quarters (Birkinshaw & Hood 1998). Such accumulation of critical resources allows the subsidiary to take more complete control of its own destiny. The control mechanisms can be divided into three groups: centralisation of decision making, formalisation of rules and procedures, social or normative control through staff transfers and shared corporate culture (i.e. socialisation). Many large MNC's are mature and their numbers is considerable and they are geographically highly dispersed, the top management ability to control foreign units is reduced.

MNC's can gain competitive advantage through generating and utilizing knowledge and resources from subsidiaries located in different parts of the world. MNC top management can loose control over their subsidiaries for reasons associated with problems arising with cultural differences. In order to regain control, regional subsidiaries as a formal, structural mechanism should be introduced. Japanese firms are typically ethnocentric in managerial style and approach, whereas European multinationals are considered to be more polycentric. European companies are structured around relatively strong and autonomous overseas subsidiaries that are loosely coordinated through informal networks of personnel management contracts

(Walsh 1996). From a control perspective, units in Far East are often more distant peripheral than Northern European subsidiaries, which were geographically, hierarchically and linguistically closer to both corporate and regional head quarters. Employees in the Far East often feels isolated and disconnected from the decision making process (Ghauri & Piekkari 2005). Findings of Perlmutter and Heenen (1974) confirm the control and communication challenges associated with geographical distance between head quarters and foreign subsidiaries. The corporate culture must be strong in order to glue the units together, particularly in the Far East (Ferner, Edwards & Sisson 1995).

2.4 Relationship marketing

In the beginning of the 1980s relationship marketing came as a leading new approach to marketing. It is defined in the following way: “Marketing is to establish, maintain, and enhance relationships with customers and other partners, at a profit, so that the objectives of the parties involved are met. This is achieved by a mutual exchange and fulfilment of promises” (Grönroos 1993, p. 11f). Marketing is viewed as an interactive process where relationship building and management are two vital cornerstones. The relationships are often more complex than mere exchange relationships, they involve trust and promises (Grönroos 1993). “To be an effective competitor requires being a trusted co-operator” (Morgan & Hunt 1994, p. 20). The perception of trust depends on the cultural background, members of the Japanese culture traditionally rely on honour as the basis for trust (Mintu-Wimsatt & Gassenheimer 1996). Research in Uppsala, Sweden, shows that companies strive to establish and develop long-term relationships with its important customers (Johanson, Blomstermo & Pahlberg 2002). In the business market, the process of selling and buying is a process of interaction. Between competitors in a strategic alliance there are not buyer and sellers, only partners that are exchanging resources and products (Morgan & Hunt 1994). The process is not of action and reaction. Each purchase must be seen in its context of its relationship and there it can be fully understood. Each purchase or sale is a single incident among many in its relationship. Each incident is affected by the relationship in which it forms part and furthermore each incident affects the relationship itself.

The business relationships are separate from the companies that they are from and they have a life of their own. It is necessary that the buyer have realistic set of expectations so that the expectations of both companies involved are met. Business relationships can be a source of technical know-how, they can be an important factor in developing the technical capabilities of a company, they can be important to create the market position of the company or they can be leveraged to approach new customers. Adaptations are an important aspect in relationships.

Each relationships has its own ‘atmosphere’, which, can be described in terms of power-dependence relationships which exists between the companies, the state of conflict or co-

operation and overall closeness or distance of the relationship as well as by the companies' mutual expectations (Naudé & Turnbull 1998).

Business relationships emerge out of ordinary market relationships. The importance of building long-term relationships is not just for the actual business but also for the future to gain new businesses and profit (Johanson, Blomstermo & Pahlberg 2002). The relationships are important for the firms learning and depending on to which extent the learning potential is exploited; the learning can contribute to just as much knowledge development of firms as more formal cooperation's. Most business firms are engaged in business relationships with a limited set of important customer firms. This set of customer firms' accounts for a significant share of the business conducted by supplier firms. Customer firms are considered important for the technical development of the supplier. Business relationships constitute a firm's business base (Johanson, Blomstermo & Pahlberg 2002).

Transaction cost is one of the reasons for continuing business with a particular supplier. The relationship development process means that at first, weak interdependence relationships between firms can be transformed into a strong and mutual dependence. This in turn, allows the relationships partners to coordinate their interdependent activities and thus realise the gains mentioned above. Through interactions firms are able to demonstrate their willingness and ability to do what they claim they intend to. In general it is said that it is necessary to invest in the relationship during a period of five years before one can gain the fruits of it. Therefore relationship development takes time (Johanson, Blomstermo & Pahlberg 2002).

Relationships are connected to one another in the sense that the interaction in one has an impact on the other. Each relationship is embedded in a set of connected relationships forming a network structure (Johanson, Blomstermo & Pahlberg 2002). The business relationships of a firm are connected if these can be considered to be dependent on one another. Due to the interdependence, the firms' performance becomes dependent on its business relationships. Development of these relationships becomes a way of coping with the market (Blomstermo & Sharma 2003). Business relationships are frequently long lasting, involve a considerable degree of commitment between the parties, and cover many different issues. Other researchers have also identified that business relationships are not solely a matter of exchanging goods at arm's length in a market. Instead, business is done in relationships that involve a considerable degree of commitment and trust, co-ordination, integration of workflows and resources, and cooperation between the parties. Marketing success in relationships is won by commitment and trust to cooperative behaviours. A relationship commitment is when an ongoing relationship between two partners is so important that they find it worth working on the relationship to ensure indefinitely endurance. A partner can't be trustworthy if there is no rely on them, and then the trust is limited (Morgan & Hunt 1994). The evolution of business relationships has been described as a social exchange process where initial acts of commitment, such as the adaptation of products to better suit the buyer, is reciprocated by the other party buying more. Over time, as the parties

learn more about each other's business context, they are able to adapt to each other to better match their needs. This sequence of adaptations between the buyer and seller gradually transforms their transactions into a business relationship. Business relationships evolve as a result of interactions between parties doing business with each other. Relationship marketing is a part of the developing network theory that distinguishes the global competition increasingly occurs between networks of firms (Morgan & Hunt 1994).

A business network can be defined as a set of two or more connected business relationships (Blomstermo & Sharma 2003). Business markets are networks of interconnected business relationships business networks. One of the basic assumptions of the business network perspective is that each business relationship is unique. It has its own history and a specific set of individuals with their unique experiences and competencies. Learning routines developed in one relationship can be applied in other relationships that are considered similar from which the experience was originally gained. The business connection is established through interactions among the parties, which requires time and lot of work. The connections and the business networks are special assets that can't be seen in the annual report or in reality. They consist of undertaking, expectations, skills and confidence, which often are mutual and common for both parties (Johanson, Blomstermo & Pahlberg 2002). The business network relationships between the different firms will influence strategic decisions and the firms' business development. A prerequisite for this influence is the existence of trust and commitment in the network.

The structure a network has, the way the firms are connected to each other, is a result of the network's history and evolution, but the structure is also the foundation for future development. Since a large part of the knowledge development takes place within a company's relationship, the company becomes highly dependent on these relationships and the knowledge within them for its development and performance. One way to gain knowledge is through experience. In a network much of the firm's knowledge comes from experience from interaction with its counterparts. As the internationalising firm starts operating in foreign markets, it gains experimental knowledge of that market. This leads to increasing market commitment that in turn leads to more activities and, through them, more knowledge. Studies have implied that experience of business in one relationship may be useful in the development of other relationships (Blomstermo & Sharma 2003).

Network connections have significant effects on the business relationship atmosphere. It is argues "the most salient part of the environment of any firm is other firms" (Blankenburg-Holm & Johansson 1995: 2) and that the network of firms should be conceptualised as a network of firms involved in exchange relationships. If we want to use exchange network theory in studies of business markets, we have to be able to identify sets of connected exchange relationships in business markets in the sense that business in one business relationship supports business transactions in other, or that business in one is done at the

expense of business in the other. That is a business network (Blankenburg-Holm & Johansson 1995).

Network is relationships between actors and it brings into focus the type of relationships established between the actors in the market (Snehota 1993).

It is demonstrated that knowledge is gained through networks of interconnected business relationships (Blomstermo & Sharma 2003). Such relationships may involve domestic and foreign suppliers and customers, the supplier's supplier, customers' customers, suppliers' other customers and the customers' other suppliers. Internationalisation can thus fruitfully be investigated in terms of international business relationships embedded in networks of business relationships. Business relationships, and consequently business networks are based on complementarily. Learning only takes place through interaction with others.

The existence of business relationships can be seen as an active force in the business world dynamics. One important reason for that is that relationships are part of the knowledge-generating process. Business relationships do not simply facilitate learning they also increase the number of opportunities to learn through expanding the total knowledge base (Håkansson & Johansson 2001).

Table 2.4 Researches related to international business negotiations, head office subsidiary literature, relationship marketing and the impact of culture.

Example of research	Topic	Conclusion
<ul style="list-style-type: none"> • Andersson (2003) 	Head office Subsidiary	Subsidiaries are influenced by there cultural surroundings and they are in the meantime an important driver for the MNC development.
<ul style="list-style-type: none"> • Ghauri (2003a) 	International Business Negotiations	The process is in three stages and is mainly influenced by background factors, culture and atmosphere
<ul style="list-style-type: none"> • Graham (2003) 	The influence of culture the process of negotiation	Culture influence. Japan is a strange place.
<ul style="list-style-type: none"> • Johanson, Blomstermo and Pahlberg (2002) 	Relationship marketing	Companies want to establish and build long-term relationships. Good for the future.

2.5 The Japanese market

The well-established Japanese market is much larger than China's, with a very advanced technology capacity development, modern and transparent legal system, patent laws, financial markets and governance system (Isenberg 2003). The Japanese like to do business with well-known companies that work with advanced technology, active research, development and high quality. They are often willing to pay higher prices for guaranteed quality with higher status (Molnár 1997). The Japanese market is homogeneous in terms of consumer characteristics and preferences, communication media, and distribution systems. Product innovations diffuse more rapidly in Japan because of its "high context culture and homophiles;" that similar people talk more often. Japanese consumers are more insistent on new products. The concept of "product churning" in Japan reflects the Japanese consumer's well-known passion for new products. Product churning is the dynamic that drives (Japanese)

consumer's product companies continuously to create and introduce new products. When a new category succeeds in Japan, the pioneer continually improves its product "kaizen". As a result followers are rarely able to leap ahead in terms of new features. The "second, but better" strategy is much less feasible in Japan (Alpert et al. 2001).

2.5.1 Aspects of the culture and business in Japan

The island of Japan lacks natural resources and devotes big efforts in making their place in the world (Broadbent 1994). Japanese business devotes great effort to understanding western markets (Alpert et al. 2001). Japanese spouses are shown to be successful at adjusting to foreign environments (Simeon & Fujiu 2000). Their academics base their appraisal of business practices on the knowledge in a Buddhist framework (Deshpandé, Farley & Bowman 2004). The high level of uncertainty avoidance in Japanese firms may indicate a low level of entrepreneurial culture. The highly consensual nature of Japanese management style mainly indicates that Japanese corporate is more consensual. The Japanese employees are very committed to their organisation's values (Apasu, Ichikawa & Graham 1987), they are a part of an organisation, and don't often label the profession like in Western cultures (Broadbent 1994).

The best negotiators are the Japanese because they spend so many days getting to know their opponents (Graham 2003). The Japanese are well prepared for negotiations and meetings. They have collected and gathered all data and information for the potential business. They are often so well prepared that they already have decided the outcome of the meeting in advance and that the actual meeting only is a confirmation on the business deal. Detailed information about the product is gained like functions, quality, price and manufacturing. They also have the knowledge about its substitutes, land of origin as well as material. When it comes to the price they also have the idea of what price is realistic and they are aware about their margins and the value of the product. Despite this they seldom leave their offer or answer at the table, they like to further calculate. It is like a small game (Molnár 1997). Japan is consistent with most descriptions of Japanese negotiation behaviour in the literature, the result of the analysis suggest that their style of interaction is among the least aggressive (or most polite). Threats, commands, and warning appear to be de-emphasised in favour of the more positive promises, recommendations and commitments. Particularly indicative of their polite conversational style was their infrequent use of "no" and "you" and facial gazing, as well as more frequent silent periods (Graham 2003).

The Japanese negotiate a personal relationship while other countries just negotiate a contract (Herbig & Gulbro 1997). The Japanese make a great effort in the beginning to establish a harmonious relationship. During the negotiation, it is more important to maintain the relationship than to be frank and open (Graham & Sano 2003). Business relationships in Japan involve high initial investments in time and money to establish both interpersonal rapport and economic fit. The Japanese prefer not to change a new business relationship when

an existing one has proven successful. Thus, once supplier/buyer relationships are established, it becomes quite difficult for outsiders, foreigners or Japanese, to break in (Alpert et al. 2001). When negotiating with the Japanese, you need a completely different beginning game. They often want to spend time creating a friendly, trusting atmosphere before discussing business. Positions are expressed indirectly to obscure conflicts, even though you are negotiating to resolve these conflicts. Direct questions are regarded as rude. Japanese are data collectors and hypothetical reasoning does not convince them. There are very strong buyer-selling relationships in Japan, where long-term relationships are very important in the Japanese culture (Johanson, Blomstermo & Pahlberg 2002).

Whorf hypothesis is a theory that language determines the nature of the culture and was developed in 1965. The theory argues that words provide the concepts for understanding the world. Twelve years later a distinction was developed in languages that determines if they are explicit or implicit. Languages where people state things indirectly and implicitly are called high context where Japan is on the top of the countries, where surrounding information is necessary for understanding (Cullen 2002).

The Japanese are very uncomfortable with an open conflict that they hardly ever express it directly. They talk around it, or do not react at all, or give indirect hints that they disagree. In fact they hardly ever say no directly; one must infer it from the way they say yes. In Tokyo, the running joke (though true) is that the Japanese have twenty ways to say "No" without having to say it (Hendon, Hendon & Herbig 1996). "That is difficult," means no in Japanese, it is unacceptable (Salacuse 1992). For example it can take years to realize that a conflict exists between two persons, they are so discrete and still respectful. Every Japanese has been thought at this mother's knee to avoid social conflict (Hendon, Hendon & Herbig 1996).

For the inexperienced it can be hard to read the Japanese persons expressions, but they are indeed not expressionless. Many describe them as expressionless, which are wrong, because they indeed have at least as expressions as everyone else (Graham 2003). For Japanese the period of silence is normal an appropriate time to reflect on what is said. The fact that they are not speaking their native language lengthens even more the time needed to respond.

Pride and honour are of great importance in Japan (Graham 2003).

Confucianism, honesty, integrity, and sincerity in deal making are greatly appreciated. The negotiation style is often relationship-oriented and concentrates on a long-term arrangement. For the Japanese the role of the seller is more important than for other cultures. They give greater defence to the needs of their buyers. Viewing negotiation as a process of exchange involving several proposal-counterproposal iterations. They Japanese counterparts often do not promptly reciprocate with a counterproposal. Also rooted in the Japanese culture is a greater emphasis on reliable and trustworthy partners (Alpert et al 2001). Terms such as thoughtful, cooperative and respectful instil positives in the Japanese culture (Herbig & Gulbro 1997).

2.6 The South Korean market

Korea is one of the four tigers of East Asia. The country has achieved an incredible record of growth and integration into the high-tech modern world economy. Moderate inflation, low unemployment, an export surplus, and fairly equal distribution of income characterize this economy. The country's GDP (Gross Domestic Product) per capita is today equal to the lesser countries of EU and only four decades ago it was comparable with levels in the poorer countries of Africa and Asia. This success was achieved by a system of close government/business ties, including directed credit, import restrictions, sponsorship of specific industries, and a strong labour effort (Business-in-Asia; CIA The world fact book).

2.6.1 Aspects of the culture and business in Korea

Characteristics in the Korean business are clear vision and goals, foresight, strong ambition, rapid decision-making and implementation and commitment to the national interest. A major difference compared with Japan is the speed and execution of decisions and their implementation (Shim & Steers 2002). Starting on time is considered an important element for a successful meeting in Korea. Other elements that contribute to a successful meeting are adequate preparations, clearly set objectives, agreement on follow-up actions (Lee & Lazarus 1993).

Korean negotiators use considerably more direct language or threats than the Japanese during negotiations. Koreans used the word "no" and interrupted more than three times as frequently as the Japanese (Graham 2003). Nothing that is said should be taken literally. There is often a reluctance to give a direct answer of "no". Sucking in air through your teeth is one way to signal a definite answer of "no". This sound can also be used to indicate that there is a serious problem. A response such as "maybe", accompanied by squinting of the eyes or tipping the head back may also be used to disguise a "no". A "yes" answer should either not be taken literally. To preserve saving-face they will often give the answer they think the questioner wants to hear and say "yes" even if they don't mean it. A "yes" can mean to think about it or no. It is considered more important to maintain harmony and good will than to give a sincere answer that causes distress. Silence can be one sign that you are not being understood. Since "saving face" is important in this culture, people will not admit in front of others that they are having difficulties. It is important that you make every effort not to confuse the history and culture of Korea with other Asian countries, especially Japan. Group-consensus is preferred as the Korean decision-making model. The senior person takes the final decision (Business in Asia).

The first bid should give plenty of room for negotiations. The starting positions of the Korean counterparts may appear unrealistic, but they will be prepared to compromise. This way, both sides leave appearing to have gained significant ground. Appearing to be in a hurry also puts you at a disadvantage. Business tends to be conducted at a slower pace than in

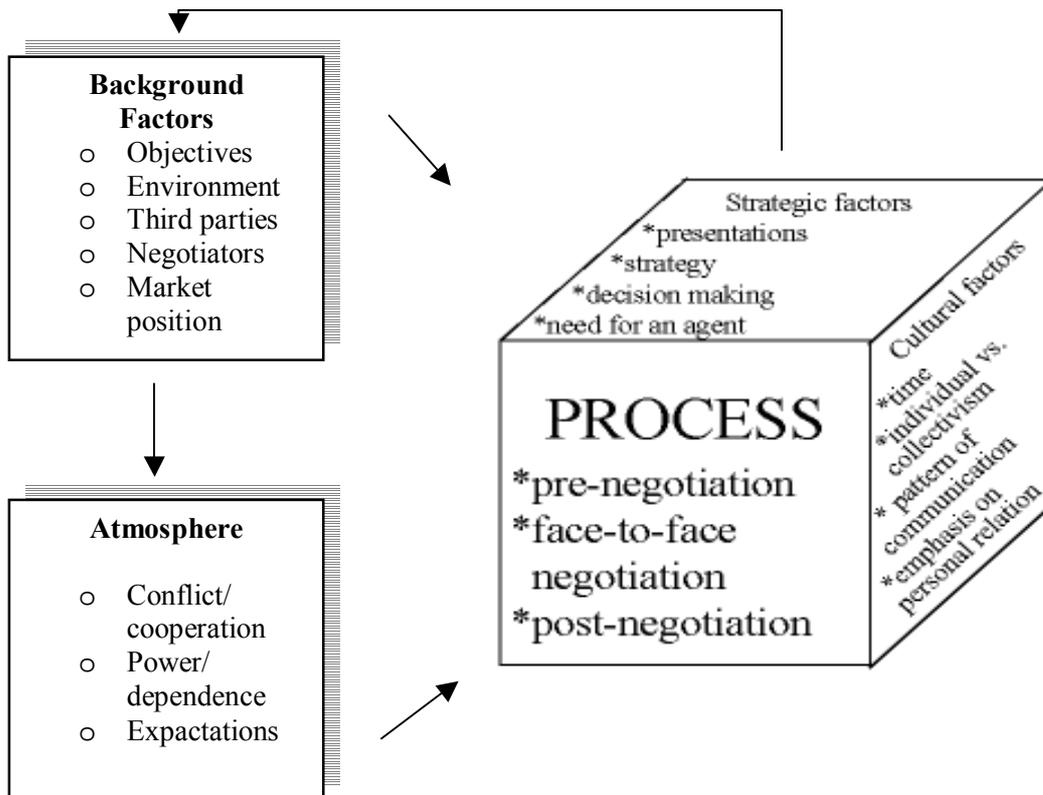
Europe and patient and flexibility is good to show (Cavusgil, Ghauri & Agarwal 2002). Often, this is a tactic to 'wear down' the other side. The Korean business culture tends to be conservative and have a strong work ethic. Generally, harmony and structure are emphasized over innovation and experimentation. Negotiations can be very aggressive in tone. Koreans can be very frank and quick to express anger and frustration. You will have to be alert to subtleties in conversation to help discern the sincerity of the response (Philips Intranet).

Koreans have learned to obtain their objectives by working long, efficient and to compete against overwhelming odds (Choe & Pitman 1993). "Saving face" is an important concept to understand and in South Korean business culture, a person's reputation and social standing rests on this concept (Philips Intranet). When a Korean smile or laugh they are often ashamed, embarrassed, feel fear, anger or surprise. The Koreans place big value on non-verbal communication and consider a persons inability to read feelings as a lack of sensitivity. A period of silence is a natural and expected form of non-verbal communication (Asia source).

3. A model for analysis

After a literature review and insight in the research front, as a framework for international business negotiations the model proposed by Ghauri (2003a) suffices for the study of cross-cultural negotiations among head office subsidiary in different environments. The process of international business negotiation model developed by Ghauri (2003a) is one of the latest models in the field. The descriptive model simplifies the process while it is general and serves as an overall framework. It is essential that a model or framework is dynamic in its nature (Cavusgil & Ghauri 1990) and since the model is not used for head office subsidiary relationships it needed to be adapted to suit the specific need. Some variables were excluded. The model (Figure 3.1), which has a predominant role in the research (Ghauri & Grønhaug 2002), has three groups of variables: background factors, the process and the atmosphere. Third parties and market position are removed from the background factors since the subsidiary themselves are a kind of third party between the customers and Philips.

Figure 3.1. A model illustrating the process of international business negotiation



Source: Ghauri 2003a: 9.

3.1 Background factors

The background factors influence both the process and the atmosphere. The effect of different variables on the process and its different stages varies in intensity. One of these variables may influence one stage positively and another negatively. A positive influence means that the process saves time and continues smoothly, while a negative influence causes delay and obstacles. Background factors consist of objectives, environment, market position, third parties and negotiators (Ghauri 2003a);

- *Objectives* are defined as the end that each party desires to achieve. The objectives are often classified as common, conflicting or complementary. For example, parties have a common interest when both want a successful deal; buyers in international deals are concerned with acquiring the appropriate technology to build an infrastructure. On the other hand, sellers want to enter a particular market and expect to do future business with it and with the surrounding countries' markets. Common and complementary objectives affect the negotiation process directly and positively, whereas conflicting objectives dominate a relationship.
- The *environment* refers to the political, social and structural factors relevant to both parties. Variation of the parties with respect to environment often hinders the international business negotiation process. When unfamiliar parties having different background, interact with one another there are greater chances of interaction interferences. Some of the characteristics directly influence the process while others directly influence the atmosphere.
- Negotiators often involve *third parties*, i.e. parties other than the buyer and the seller, such as governments, agents, consultants and subcontractors. They tend to have different objectives and can therefore influence the negotiation process. Governments are often involved and influence the buyers towards complementary objectives, such as infrastructure, employment opportunities, foreign exchange considerations and any other prospective relationship between the countries involved.
- *Negotiators* influence the negotiation process with their own experience and negotiation skills. They operate within two limits: firstly, they act to increase common interests and to expand cooperation among the parties; secondly, they act to minimize their own interests and to ensure an agreement valuable to themselves. The personality of the negotiators is also important, especially when information about the other party is lacking and there is greater stress. A good personality is defined as an individual with the ability to make others understand his position, to approach strangers with ease

and confidence and to appreciate the other person's position. However, the skills of negotiators are related to different objectives and motivations, pertaining to different people and professionals. Negotiators with a technical background may place more emphasis on technical issues, while those with a business background might consider other issues to be more important.

- The parties' *market position* is an important factor that has influence on the negotiation process. If either one of the buyer or the seller has monopolistic power in the market place, that can affect the process and bargaining position. The number of buyers and seller in the market determines the number of alternatives available to each party, which, in turn, affects the amount of pressure imposed by its counterpart within the market.

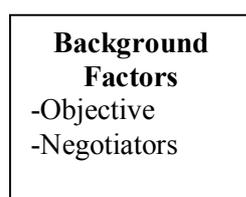
3.1.1 Analysis of the background

Since this research aims to study a relationship between head office subsidiary not all factors from the background exist. Third parties are not used in head office subsidiary because the subsidiary itself can be viewed as a third party between the head office and the customers.

The parties' market position will not influence the negotiation since they both belong to the same organisation. The market position influences the relationship that they have with the customers but not with there own subsidiary.

The environment will not influence the relationship either in political terms. Left from the background factors are objective and the negotiators, as illustrated by figure 3.1.1.

Figure 3.1.1 Background factors



3.2 Atmosphere

The definition of atmosphere is the perceived "milieu" around the interaction. That means how the parties view each other's behaviour, and the properties of the process. It has to do with people's perception of reality. Consequently in negotiations it is the perception of reality that is more important than the reality itself. The atmosphere is of fundamental importance to the negotiation process as a whole. The atmosphere characterises the relationship that is developed during the negotiation process between the parties. The process and the atmosphere affect each other through interaction at each stage of the process. Some characteristics of the

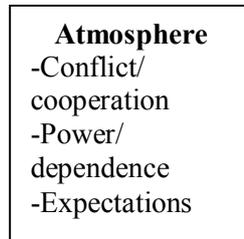
atmosphere are dominant at one stage, others at another stage. In the pre-negotiation stage the parties look for mutual solutions and therefore it is dominated by cooperation. Different characteristics of the atmosphere dominate from process to process. These characteristics are conflict/cooperation, power/dependence and expectations (Ghauri 2003b):

- The existence of both *conflict and cooperation* is a basic characteristic of the negotiation process. On one hand, parties have some common interests in finding a solution to the problem that fits both parties. On the other hand, a conflict of interest may arise, as cost to one of them can mean income to the other. The magnitude of conflict or cooperation in the atmosphere depends upon the objectives of the negotiating parties. Some relationships are more complementary – and consequently less conflicting – than others. The degree of conflict or cooperation during different stages of the negotiation process is often a function of the issues being dealt with, while the degree of conflict or cooperation in the atmosphere is a function of how the parties handle various problems. Conflict is something perceived, without the existence of real conflicts. Each process and even each stage of the process can be characterized somewhere on a scale with cooperation and conflict on opposite sides.
- The *power/dependence* relation is another basic characteristic of all negotiation processes. It is closely related to the actual power relation, which is influenced by the value of the relationship to the parties and their available alternatives. Background factors for example the market position - can influence the power/dependence relation. The ability to control a relationship is related to the perceived power of two parties, their relative expertise and access to information. This power is a property of the relationship and not an attribute of the actor; in fact, it is closely related to dependence. Therefore, the power relationship is in balance if both parties perceive equal power. The power relationships unbalanced if one of the parties perceives more power, or if one party is dependent on the other.
- The last aspect of atmosphere concerns two types of *expectations*. Firstly, there are long-term expectations regarding the possibilities and values of future business. The stronger these expectations are, the more inclined the negotiators are to agree on the present deal. Long-term expectations are related to primary objectives. Secondly, there are short-term expectations concerning prospects for the present deal. The parties' decision to enter negotiations and to continue after each stage implies expectations of a better outcome from participating than from not participating. This compels the parties to proceed from one stage to the next. Expectations develop and change in different stages of the process.

3.2.1 Analysis of the Atmosphere

All variables from the atmosphere are applicable in the head office relationship. They are still relevant and will remain. All of the three factors will illustrate the relationship in a representative way. Figure 3.2.1. illustrates the atmosphere variables.

Figure 3.2.1 The Atmosphere



3.3 The negotiation process

The process of international business negotiation presented here is divided into three different stages. A stage of the process refers to a specific part of the process and includes all actions and communications by any part pertaining to negotiations made during that part. Parties communicate with each other to exchange information within each stage. A particular stage ends where parties decide to further on to the next stage or decide to abandon the communication if they see no point in further negotiations. In the pre-negotiation stage, parties attempt to understand each other's needs and demands, which is done through information gathering and informal meetings. The negotiation stage refers to face-to-face negotiations and the post-negotiation stage refers to the stage where parties have agreed most of the issues and are to agree on contract language and format and signing the contract.

In international business negotiations, the process has three dimensions. In addition to the three stages, it has a cultural dimension and a strategic dimension. These two dimensions are present in each of the three stages of the process. However, these can play different roles in different stages. This is illustrated by Figure 2.3.3 the process of international business negotiation (Ghauri 2003a). Every negotiation is in essence a conflict resolution exercise, where competing expectations are balanced against each other in order to produce satisfaction of the parties' needs.

Stage 1: Pre-negotiation

In the pre-negotiation stage a first contact between parties in which an interest in doing business with each other is shown. Some negotiations can take place during this stage and hesitant offers are made. When the parties begin to understand one another's needs then the dynamism of the process can be observed and they evaluate the benefits of entering into the process of negotiation.

At this stage the parties want to gather as much relevant information as possible on each other, the operating environment, the involvement of other third parties, influencers, competitors and the infrastructure. Parties need to be aware that their relative power relationship can be altered at any time by such events as the repositioning of competitors or movements in exchange rates. As defined is this negotiation process of problem-solving nature, with the main issue to define the problem that needs to be solved. It is important to define the problem together, since it will not only reflect each other's expectations but is also necessary to acquire commitment from both parties. The parties should, then, truly and openly discuss each other's objectives and expectations in order to achieve a positive problem-solving situation. Informal meetings take place as the parties examine each other's objectives and expectations in order to achieve a positive problem-solving situation.

Informal meetings take place as the parties examine each other's position. Whether the parties continue to the next stage of the negotiation process depends on the perceived level of cooperation or conflict, of power or dependence and the expected benefits of the relationship. The process often ends in failure if too much conflict is sensed or if a successful future relationship seems doubtful. The parties should truly see how they are going to cooperate, examine whether it is realistic to expect to achieve the objectives of both sides and to identify the obstacles that have to be overcome to achieve these objectives.

The pre-negotiation stages are often more important than the formal negotiations in an international business relationship. Social, informal relationships develop between negotiators at this stage can be of great help. Trust and confidence gained from these relationships increase the chances of agreement. One method of establishing such contacts is to invite individuals from the other side to visit your office/country in an attempt to develop trust. The prime objective here is to get each other's priorities. The parties need to understand the interests and fears of the other party.

Parties also begin to formulate their strategy for face-to-face negotiations. By strategy we mean a complete plan regarding problems, the solutions available and preferred choices, relative to the other party's choices and preferences. Parties try to build up their relative power. They compare the alternatives available; make check lists and assign arguments for and against these alternatives. They also decide on possible points of concession and their extent.

Parties try to foresee and take precautions against predictable events. Remittance of funds, taxes and import duties and work permits are just some examples of the rules and regulations of the particular country that must be researched at this stage. An understanding of the infrastructure of the country and the company is also critical at this point. In some countries, especially when the public sector is the buyer, purchasing organisations issue a "letter of award" (also called letter of intent/acceptance) after the first stage. The negotiators from Western countries often perceive this letter of award as a grant of contract. However,

this is an incorrect assumption; the letter merely indicates the other party's intention to negotiate further (Ghauri 2003a).

Parties to international business negotiations should have an initial strategy, which is dependent on the information attained so far and the expectations. The negotiators should list the problems and issues, especially the conflicting issues and form strategies and choices for all possible solutions they or the other party could suggest. These solutions should be ranked in terms such as preferred, desired, expected and not acceptable. If not acceptable, a solution that could be acceptable to the other party should be suggested. It is, thus, important to have several solutions for each problem or issue.

Stage II: Face-to-face Negotiation

The basic issue at this stage is that parties believe that they can work together to find a solution to a joint problem. The parties should also be aware that each side views the situation, the matter under discussion, in its own way. Not only that it has a different perception of the process but it has different expectations for the outcome. It is then, important to start face-to-face negotiations with an open mind and to have several alternatives. At this stage, as the process continues, the parties should evaluate the alternatives presented by the other party and select those that are compatible with their own expectations. The best way is to determine criteria for judging the alternatives and then rank order each alternative, one's own as well as those presented by the other party, against these criteria. Here the parties can even help each other in evaluating these alternatives and can discuss the criteria for judgement. The main issue is to explore the differences in preferences and expectations and to come closer to each other.

Experience shows that the partner who arranges the agenda, since he can emphasise his own strengths and the other party's weaknesses, thus putting the other party on the defence, controls the negotiation process. However, the agenda may reveal the preparing party's position in advance and hence permit the other side to prepare its own counter-arguments on conflicting issues. Some negotiators prefer to start negotiations by discussing and agreeing on broad principles for the relationship. Another way to ensure success at this stage is to negotiate the contract step by step – discussing both conflicting issues and those of common interest. In particular, an initial discussion on items of common interest can create an atmosphere of cooperation between parties. The choice of strategy depends upon the customer or supplier with whom one is negotiating. It is helpful to anticipate the other party's strategy as early as possible and then to choose a strategy to match or complement it.

It is often suggested that the negotiator should not agree to a settlement at once, even if there is considerable overlap of his position with that of the other party. The negotiator may obtain further concessions by prolonging the negotiation process. A number of studies have revealed that negotiators who directly submit a "final offer" can be at disadvantage. In view of the diverse cultural and business traditions prevailing in different countries, international

negotiators inherently involve a discussion of differences. It is very difficult for parties to comprehend or adjust to each other's culture or traditions, but it is important to be aware of these differences. Social contracts developed between parties are far more significant than the technical and economic specifications in many emerging markets. Negotiators from these countries take their time and are very careful not to offend or use strong words; and the other party is expected to follow suit.

A balance between firmness and credibility is important in all types of negotiation. It is important to give and take signals of readiness to move from the initial stage without making concessions. Negotiators having prior dealings with each other can easily send and receive signals, but it is very difficult for those meeting for the first time. Negotiators often send conditional signals such as "We cannot accept your offer as it stands" or "We appreciate that your equipment is quite suitable for us but not at the price you mentioned".

It is also common that the party perceiving greater relative power makes fewer concessions and that the weaker party yields more, often to create a better atmosphere. Maintaining flexibility between parties and issues is of great importance in this stage. These usually occur after both parties have tested the level of commitment and have sent and received signals to move on. For example, the price can be reduced if the party offers better terms of payment. Other elements can be traded off but there may not be a way to evaluate them in accounting terms. For example, an entry into a huge protected market may be strategically more important than obtaining handsome profits on the present deal.

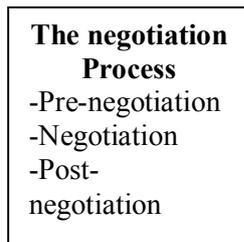
Stage III: Post-Negotiation

At this stage, all the terms have been agreed upon. The contract is being drawn up and is ready to be signed. Experience has shown that writing the contract and the language used can be a negotiation process in itself, as meaning and values may differ between the two parties. This stage can lead to renewed face-to-face negotiation if there is negative feedback from background factors and atmosphere. Discussion should be summarized after negotiations to avoid unnecessary delays in the process. Both parties should read the terms agreed upon after concessions are exchanged and discussions held, by keeping minutes of meetings, for example. This will help test the understanding of the contract, as parties may have perceived issues or discussions differently. This not only applies to writing and signing the contract but also to its implementation. Trouble may arise later during the implementation of the contract if parties are too eager to reach an agreement and do not pay enough attention to details. The best way to solve this problem is to confirm that both sides thoroughly understand what they have agreed upon before leaving the negotiation table. A skilled negotiator will summarize and test understanding: "Do we understand correctly that if we agree in your terms of payment and repay the credit within three years from the date of the contract, you will reduce the price by 7%?"

3.3.1 Analysis of the Negotiation Process

The process that now consists of three stages will still be used until the empirical data is collected. The only modification that will be done now is that the face-to-face negotiation will just be named negotiation and will focus not only on the actual face-to-face negotiation but in a wider view instead. The empirical findings will show how and if these variables will need to be adapted for the head office subsidiary relationship, figure 3.1.1 illustrate the three stages.

Figure 3.3.1 The negotiation process



3.4 Cultural factors

Cultural factors play an important role in international business negotiations, as apparent from the above discussion. The following factors are chosen that are the most important in their respect;

- *Time* has different meaning and importance in different cultures. While ‘time is money’ in the Western culture, it has no such value attached to it in many cultures in Asia, Latin America and Africa. This influences the pace of negotiations and the punctuality in meetings. For negotiators, it is important to have advance information on the opposite party’s behaviour regarding time. This will help them to plan their time as well as to have patience and not to get irritated during the process.
- *Individual vs. Collective behaviour* is rather clear behavioural aspects in different cultures. As indicated by Hofstede’s study of 69 countries, we can place different countries on different scales. In cases of negotiation, it is important to have knowledge of this cultural attribute, as it will help us to understand the behaviour of the other party and to formulate an effective strategy. Knowing whether the opposite party is looking for a collective solution or an individual benefit will help in formulation of arguments and presentations.
- *Pattern of communication* different cultures have different communication patterns as regards direct vs. Indirect and explicit vs. implicit communication. These are related to culture as well as the contextual background of languages. Some languages are

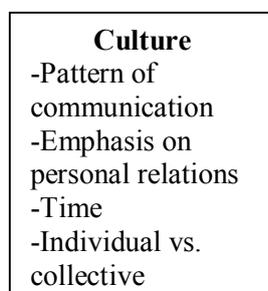
traditionally vague and people from outside find it difficult to communicate with people with such language backgrounds. Indicators such as “maybe”, “perhaps”, “rather”, “I’ll consider it” and “inconvenient” are some examples of ambiguity in international communication and conversation. “Maybe” and “inconvenient” can mean impossible in some cultures. In some cultures even “yes” means “maybe” and “perhaps” means “no”. Some languages, for example some Arabic and some Asian languages traditionally contain exaggerations, fantastic metaphors and repetition, which can be misleading for foreigners. It is, therefore, important to be aware of these aspects and read between the lines. This is even more important in non-verbal communication, the personal space, handshakes, ways of greeting each other, communication between males and females, signs of irritation, etc., are important aspects of communication patterns, and knowledge of these can improve the negotiation process and effectiveness.

- The importance of *Emphasis on personal relations* is different in different cultures in negotiations. Many countries in the West, the negotiators are more concerned with the issue at hand and the future relationship between the organisations, irrespective of who is representing these firms, while in some cultures, the personality of the negotiator is more important than the organisation he is representing or the importance of an issue. So the emphasis on personal relations can be different in different negotiations.

3.4.1 Analysis of the cultural factors

Since the head office and the regional subsidiaries are located in different parts of the world the culture will likely influence the negotiation that they have and the factors that are in the model now will still be used. The empirical findings will later suggest if the variables need modification. The factors are illustrated by figure 3.4.1.

Figure 3.4.1 Culture



3.5 Strategic factors

While negotiating in an international setting, the parties have to prepare thoroughly with respect to how to present things, which type of strategy should be used and which type of decision-making process does the other party follow. Whether or not they need an agent or an outside consultant is also a question of strategy.

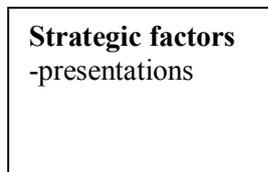
- Negotiators have to know whether the *presentations* to be made are carried out in a formal or informal setting. Whether these are to be made in teams, as in China and Eastern Europe, or to individuals, as in India and the Middle East. The formal vs. informal presentation style is very distinct in many countries. If not prepared, the negotiators can make serious blunders at an early stage of negotiations. It is also important to know whether issues can be presented in groups or whether each issue should be handled individually, and whether presentations should be argumentative or informative, factual and to the point.
- There are several types of *strategies* in business negotiations. The most important are tough, soft or intermediate strategies. In tough strategy, a party starts with a very high initial offer and remains firm on its offer and expects the other party to make the first concession. In soft strategy, a party does not start with a very high initial offer and remains firm on its offer and expects the other party to make the first concession. In soft strategy, a party does not start with a very high initial offer and makes the first concession in the hope that the other party will reciprocate. In intermediate strategy, a party does not start with a very high initial offer and as soon as an offer is made which is within its realistic expectations, it accepts it. It is important to have information on the opposite party's strategy and to adapt one's own strategy to it and to have a counter-offer ready.
- Some information on the other party's overall *decision-making* pattern is necessary before going into negotiations. Does the party use impulsive or rational decision-making? Who makes the decision? Do the negotiators coming to the table have the power to make final decisions or not? These are issues that are important to know in advance. In many cultures in Asia, decision-making is highly influenced by the importance of face-saving and influences the timing of decisions made.
- The *need for an agent* is part of strategy-formulation to realize whether or not the firm or negotiators can handle the particular negotiation on their own. What type of cost and benefits can be achieved by employing an agent for a particular negotiation process? Specialized agents and consultants are available for different geographic as

well as technological areas. There are enormous efficiencies to be achieved by using their expertise.

3.5.1 Analysis of strategic factors

The strategic factors will be adapted and will the need for an agent will be taken away since the parties belong to the same company. The decision-making would not influence the relationship and the negotiation that the head office have with their subsidiaries. Strategies will also be removed and since the parties should have the same vision and work together. The different types of strategies are not applicable. The three factors will be removed and only presentations will be left as figure 3.5.1 shows.

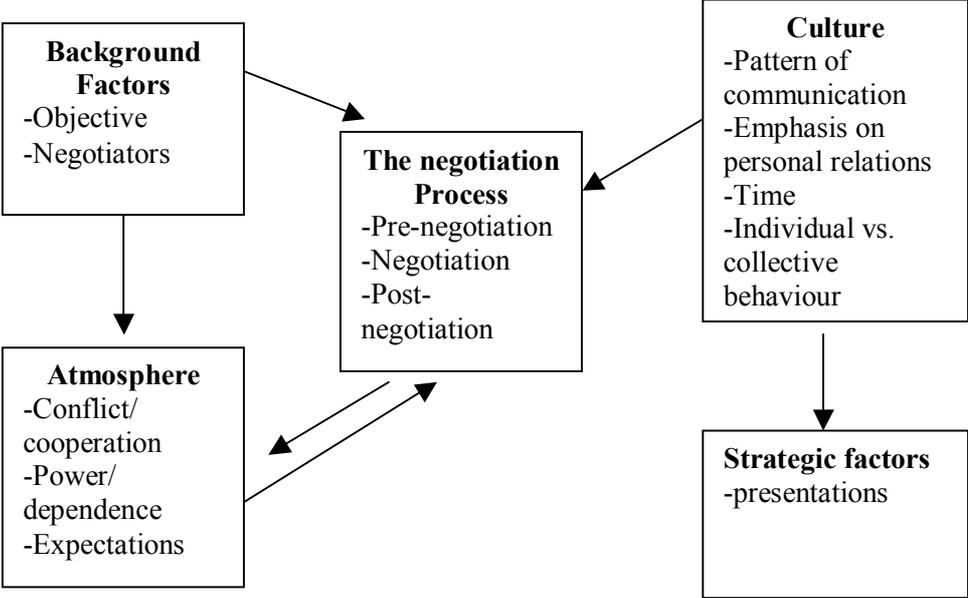
Figure 3.5.1 Strategic factors



3.6 The modified model

The modified model presented in these pages is summarized in figure 3.6. Here all groups of variables are related to each other. The model now suffices for the head office subsidiary case. When the empirical findings are collected the model can still be modified in the analysis and is now temporary.

Figure 3.6 A conceptual model



Source: Adapted from Ghauri (2003a:9)

4. Methodology

4.1 Introduction

A man and his son are involved in an automobile accident. The man is killed and the boy, seriously injured, is rushed to the hospital for surgery. But the surgeon takes one look at him and says, 'I am sorry, but I cannot operate on this boy. He is my son.'

(Ghauri & Grønhaug 2002: 11)

Unconsciously most people often believe that a surgeon is a man and therefore they don't understand the catch. The thought that the surgeon can be a woman don't hit many people.

Scientific research often challenges these non-conscious ideologies and beliefs by scrutinizing them. Turning things upside down, challenging old beliefs and creating new beliefs are not always comfortable. Research corrects our disbeliefs, generates new concepts and broadens our perspectives and perceptions (Ghauri & Grønhaug 2002).

This research is different from common sense since it is done to achieve specific goals, i.e. the research problem and it relies on specific methods. Like other business researches the purpose is to understand how and why things happen. The research that is seen as a process since it takes time; consideration and insights can be gained gradually and may also be modified and/or changed over time. The research process of planning, executing and investigating to find answers to the specific research questions. To get reliable answers to my questions, the research is done in a systematic manner, so that it is easier for others to understand and believe in the report (Ghauri & Grønhaug 2005).

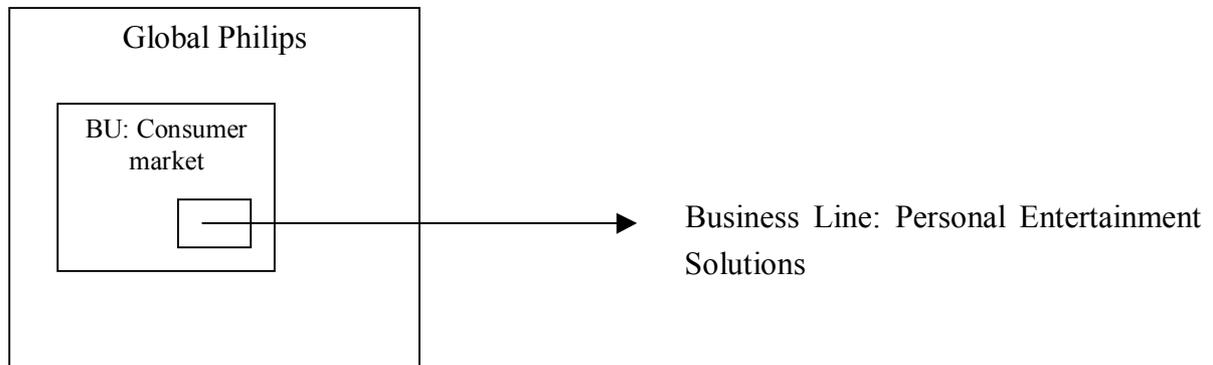
The methodology is applied in the research project striving to achieve scientific systematic conclusions. Research methodology in scientific study is important since it is a guide for communication as well as it becomes easier for the reader to criticise and understand the research result (Ghauri & Grønhaug 2005; Yin 2003). Methods or techniques are not "better" or more "scientific", only because they are quantitative or qualitative. The chosen methods and techniques are most suitable for the project and depend on the research problem and its purpose (Ghauri & Grønhaug 2005).

4.2 Qualitative method

This study is a qualitative research. The main reason for doing a qualitative research is that the problem emphasis on understanding. I want to understand a phenomenon about which little is known and that is when qualitative methods are used. The empirical data will be gained through in-dept interviews, when the qualitative method is preferred. Participation in the natural environment of the phenomenon that is being studied will also be made, at Philips

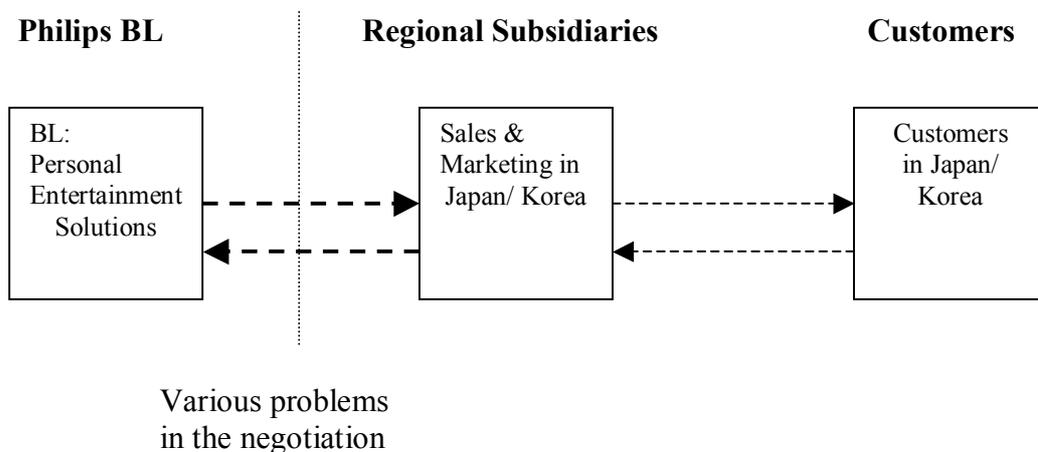
Semiconductors BL Personal Entertainment in Nijmegen, The Netherlands as illustrated by figure 4.2.1.

Figure 4.2.1 Global Philips



Source: Fjellström, Daniella (2005).

Figure 4.2.2 Philips and their regional subsidiaries



Source: Fjellström, Daniella (2005).

Figure 4.2.2 illustrates the phenomenon that is being studied in a cross-cultural setting. The case study is particularly well suited to international business research, where data is collected from cross-border and cross-cultural settings like this study. The choice of case study is made because it is expected to advance our understanding of the research phenomenon (Ghauri 2004).

It should also be added that the BL that is studied don't see that there are two relationships. They see one relationships with the customer and that the regional subsidiaries are in between. Therefore in the empirical findings the negotiation is when the BL are

meeting the customers, where also the sales team are in and the pre-negotiation is when the BL meet the sales team before meeting the customers.

Qualitative data are attractive for many reasons: They are rich, full, earthly, holistic, real; their face validity seems unimpeachable, they preserve chronological flow where that is important, and suffer minimally from retrospective distortion; and they, in principle, offer a far more precise way to assess causality in organisational affairs than arcane efforts like cross-lagged correlations.

(Ghauri & Grønhaug 2002: 87)

4.2.1 Case selection

This case was selected for many reasons. First it was selected with a big interest in international business and how people from different countries negotiate with each other.

The motivation for choosing Philips is that Philips is a global company that operates over the world. The company has a wide product range and see the globe as its market. I knew from before that different BL (Business Line) segments travel to Asia to do business and I started to wonder how a global company negotiate with their local subsidiaries in different markets considering the cultural aspect, this is where I became interested for this study. Second, when I presented the project proposal for Phillips they also found interest in the study and wanted me to do the research. The research would also present recommendations and give guidelines for improvement.

Third, Japan was chosen since it is a big market that differs from how businesses are made in Europe. They have different ways in which to make business and to build long-term business relationships. Consequently it is an interesting market, and for companies like Philips, it is interesting to know how the Japanese usually make business, what factors influence the negotiation process and how to build relationships with them. It will all be of benefits for the company since knowledge gives power.

Korea is on the other hand is a relatively new market where not much literature and research is available. This is also the reason why the information on Korea is narrower than in Japan. Still many foreign companies want to do business there. Many foreign competitors compete in Korea in the Semiconductor industry and to include the Korean market in the research was a wish from Philips. That is the main reason for including Korea in this research. The Korean market is important for Philips and they would like to know how they could improve their negotiations and long-term relationship building there. The two markets are different in their environment and characteristics and will add different value of understanding in the thesis.

4.3 Data collection

Since this research aim to understand and illustrate the negotiation in head office subsidiary relationship and the factors that influence it, a case study is the most suitable data collection

method. It becomes possible to study one unit or one phenomenon in-depth to understand the complexity. Case studies are a useful method, like in this case, when the area of research is less known. The phenomenon is studied in-depth to understand the complexity. Characteristics for this approach are the understanding of the phenomenon and it aims at seeing the object in its natural environment (Sharan 1994).

This study is performed with Philips Semiconductors BL Personal Entertainment in Nijmegen, the Netherlands. They gave me the opportunity to do internship at the company while the empirical data was collected. It is partly a field observation as well as a non-participant observation. In the field observation I will be a part of the organisation and study it at the same time. The first-hand information is collected in its natural setting.

Since interviews are the best data collection method (Ghauri & Grønhaug 2005) and it is a valuable interaction between the researchers, in-depth interviews will be performed as the main data collection. The interviewees were chosen together with the Market Segment Team (MST) Manager in the BL. He knows who has the best experience from Japan and Korea. The people that I conducted interviews with are listed in table 4.3 with further details. I also conducted interviews outside Philips to gain cultural experience from people outside the BL (for more details see table 4.3). This also increases the triangulation in addition it gives another perspective to the study. People were chosen that have experience from the culture in Japan and Korea. On top of that, one interview was conducted with a businesswoman that can add the business perspective on the cultural perspective in Korea.

The interview guide was written with consideration to the problem definition and with the literature review as a basic background for better understanding. The draft of the interview guide was tested as a pilot study, where a few persons have seen the problem definition and the interview guide to see if they are equal. The pilot study were important in this study in order to make sure that the right information would be collected in the empirical findings. The pilot study has also given the insight of how much time is needed for the interviews. The appointments for the interviews in Philips were made face-to-face and approval was given to record the interviews. The appointments for the interviews outside Philips were made over the telephone. People that were interviewed outside Philips were: the Director of Japan-Netherlands Institute in Japan who has lived there for more than 20 years; the Director of KOTRA (Korean Trade Investment Agency) in Amsterdam; Vice President at Teleca, Sweden; a Dutch exchange student in Korea. The semi-structured interview guides will guide me through the interviews so I know the information I want to gain. When an interview was over I immediately I made notes from the interview to remember the most important parts. While the memory still was fresh I went through the material to write it down (Ghauri & Grønhaug 2005).

Table 4.3 List of interviews

Company	Position	Name	Type of interview	Date and time*
Japan-Netherlands Institute	Director	Remmelink, William	Teleconference	2005-05-11: 60
KOTRA	Director	Kwon, Oh-Suk	Email	2005-05-11
Philips	Manager MST	Hof, Peter	Personal	2005-04-20: 60
Philips	IPMM Class D	Huijser, Jan-Paul	Personal	2005-04-20: 60
Philips	Business Development Incl. TV on mobile	Joosse, Kees	Personal	2005-04-27: 60
Philips	Manager Cust. Support DSP	Lefever, Benjamin	Personal	2005-04-29: 60
Philips	Manager Industrial and Customer support	Pronk, Vincent	Personal	2005-05-02: 60
Philips	General Manager	Ruttonsha, Rutton	Personal	2005-04-19: 45
Philips	IPMM Radio	Sheikh, Amir	Personal	2005-04-13: 60
Philips	Program Manager Business creation	Van der Last, Rudolf	Personal	2005-04-29: 60
Philips	Commercial Marketing	Visser, Marco	Personal	2005-04-11: 30 2005-05-03: 15 2005-05-30: 15
Philips	IPMM Wireless	Zidek, Ludvik	Personal	2005-04-18: 50
Teleca	Vice President	Sundkvist, Åsa	Teleconference	2005-06-01: 30
Yonsei University	Exchange Student	Replear van Driel, Mechteld	Teleconference	2005-05-12: 60

* Time in minutes

From the list above it is illustrated that 14 interviews were conducted. Out of these, ten were conducted in Philips with people that had experience from doing business in Korea and Japan. All of the ten interviews were personal interviews. Four interviews were conducted with people outside the organisation, external interviews, to get another view on the culture. Out of these four, one was an email interview and four were teleconference interviews. The total time spent on interviews was 725 minutes, about 12 hours.

4.4 Other data sources

Prior knowledge builds qualified research (Ghauri & Grønhaug 2005) and this research is build on literature and research from international business negotiations, head office subsidiary literature, relationship marketing. It contributes to gaining knowledge and understanding in the research front. Literature often offers the “basic” knowledge about the subject and subsequently it is necessary to read as many research reports as possible to get a good overview on the front and to understand how it has developed in later years. Earlier researches broaden the base from which scientific conclusions can be drawn. The Philips website has been used as an internal source and in addition some other websites about business in Japan and Korea. One drawback with secondary sources is that the saving of time and money loose focus and that may contribute to information gathering that don't fit the research need completely. Secondary sources can help answering research questions, to focus the research question and to decide the suitability of a certain research method and even suggest a better method. When it became exhausting with the secondary sources then I proceeded with primary data sources as recommended by Ghauri & Grønhaug (2002).

Primary sources were used when I felt that the secondary sources were not enough. Then it was necessary to collect the information that I needed myself to fit this particular study. There are different ways of collecting this type of information and since this research is a qualitative research interviews and participations will be used to gather this specific information. The big advantage here is that the information collected is consistent with the research in question and its research objectives. The main disadvantage is that it can take time and effort to collect this information as well as it can be difficult to get access to the sources that have the information. But when the access is given then the information will be given easier.

4.5 Data Analysis

Theory is developed in the thesis; alongside with the growing number of data. It means there is no definite phase of data analysis, as recommended by Miles and Huberman (1994) as the best policy to interweave data collection and data analysis from the first interview. The

quality of the information is highly dependent on the data analysis used in the gathering of data (Ghauri & Grønhaug 2002; Miles & Huberman 1994; Yin 2003).

Triangulation, i.e. the use of multiple data sources, is practised in the data collection to establish validity in the qualitative research (Ghauri & Grønhaug 2005; Yin 2003). Data triangulation is used involving different data sources in the interviews. People were interviewed that had different business experience from Semiconductors from Japan and Korea. Theory triangulation is practised since professional sources outside the research field were used when making interview with people that had cultural experience from the countries. In this type of study it is difficult to assign at a generalisability conclusions. However companies in similar situations can understand the process and learn some lessons to handle similar problems.

5. Empirical findings of Philips

The empirical findings will present the data gathered through interviews. The Philips organisation will be presented for the reader to gain a pre-knowledge before presenting the negotiation process with the Japanese and the Korean subsidiaries.

5.1 Organisational background

The global Royal Philips Electronics of the Netherlands was established in 1891 and is now one of the world's biggest electronics companies and Europe's largest, with sales of EUR 30.3 billion in 2004 (Philips Intranet). Sales and services are offered in 150 countries and they are present in 60 countries with 60 different businesses. A multinational sales force of 170,000 employees is working in the global company that has 100,000 patent rights (Philips Intranet).

Philips Electronics has the mission to "improve the quality of people's lives through timely introduction of meaningful technological innovations" and its vision is "in a world where technology increasingly touches every aspect of our daily lives, we will be a leading solutions provider in the areas of healthcare, lifestyle and technology, aspiring to become the most admired company in our industry as seen by our stakeholders" (Philips Intranet).

Philips is active in five-product divisions medical system, domestic appliances and personal care (DAP), consumer electronics, lightening and semiconductors.

Philips is the market leader in global lightening. In consumer electronics the company is number one in Europe and number three in the world market. Examples of consumer electronics are digital display and computer monitor. In DAP Philips is number one in shaving equipment. Other examples of DAP products are toasters and coffee makers. In the medical system the company is one of the worlds leading supplier of medical imaging modalities and patient monitoring systems, including X-Ray and Ultrasound. (Philips: The Philips heritage Technology for People 2003).

5.2 Semiconductors

Philips Semiconductors is one of the top ten global semiconductor manufacturers, with revenues of around EUR 5.6 B in 2004 (Philips: Philips Semiconductors 2005). A global organisation, it operates twenty manufacturing sites and maintains sales organisations in sixty countries around the world (Philips Intranet).

Philips Semiconductors are ranked number nine in the world with the sales of US\$ 4.355 billion (Philips: The Philips heritage: Technology for People 2003). Their vision is "a world where everyone can always connect information, entertainment and services" and the mission is to "enhance the (portable) audio/video experience by providing innovative solutions for the enjoyment of all customers." The semiconductors are a leading supplier of

silicon systems solutions for mobile communications, consumer electronics, digital displays, contact less payment and connectivity, and in-car entertainment and networking. The silicon systems can also be called integrated circuits (ICs), or "chip" and discrete semiconductors (Philips: The Philips heritage: Technology for People 2003). The IC's are made for applications like mobile phones, consumer electronics like refrigerator and cars. In radio and wireless, one example of an application is the chip that is used to listen to the radio. The new feature when listening to the radio is that the chip makes it portable. Philips Semiconductors was the first company that made small portable radios that not interfere with other components. They have good quality and the IC's are very small, they are used for portable applications that also have low power consumption¹.

In Semiconductors there are different business units (BU): communication market and multimedia, automotive market and consumer market. In consumer market there are different business lines (BL). Philips has more than 60 BL's. One of them is Personal Entertainment Solutions that has a global responsibility to launch products and make profit. They have global customers and they support people all over the world. The most challenging task that the BL have is bringing right products to the market before competitors. In the BL Personal Entertainment (hereinafter also referred to as the head quarter/office) there are different areas such as wireless and radio.

Business in Japan and Korea is made through their local subsidiary sales and marketing office in Tokyo respectively Seoul. They are a part of Philips and it is their responsibility to find customers, keep customers and to sell the products. The employees at sales and marketing get their salary from Philips and if they meet internal sales target they will get a bonus. The local subsidiary never discuss prices with customers, that is the job of the BL. Sales and marketing know the local market, they coordinate the business, take care of customers and sale the products of semiconductors. The negotiation that Semiconductors have with sales and marketing is mostly about forecasts of the market and supply issues, sales and product information. Philips relies on the relationship with the local sales and marketing, i.e. their local subsidiaries (hereinafter also referred to as sales and marketing and the local team) teams that exist over the world. They always go through them when doing business with the customers in the market. This is because of two reasons: the first reason is that it is good that they are involved from the start with the customers, so they know what is going on and can help the customer and number two is that they speak the local language.

According to Frans von Houten, CEO Philips Semiconductors, Japan is important to Philips Semiconductors. The division now have record sales and strong revenue growth (55% over 2003) and have made real improvements in customer relationships with companies like Sharp, Panasonic, Murata, Sanyo, Toyota and Sony (Philips Semiconductors 2005). Sanyo,

¹ Sheikh, Amir International Product Marketing manager for Radio. Personal interview 2005-04-13.

JVC and Pioneer are some other important customers². Philips in Japan focuses primarily on business-to-business activities in the semiconductor industry (Philips Intranet). Japan is a fashion market; a leading customer with strong competitors and revenue growth. The CEO wants Semiconductors to grow 5 of the top ten customers by 2008 (Philips Semiconductors 2005).

In terms of sale for BL Personal Entertainment Solutions Japan and Korea are important markets.³ Based on the actual sales in the first quarter 2005 the Japanese and the Korean market together stood for 22 % of the total sale in the world⁴.

5.3 Negotiation process with the Japanese subsidiary

With two years of active promotion in Japan the differences between the business environment in Japan and in the Netherlands have been viewed. According to the International Product Marketing Manager⁵ there are two factors that contribute to the miscommunication with the local subsidiary in Tokyo. The first reason is that the Japanese wants to know everything, literally. It can sometimes even be information that don't exist in Philips, that is a process-oriented company, and the BL views the information as useless and a waste of time for them. Second are the language and the culture in Japan. They have difficulties to understand each other, and somewhere it goes wrong.

When it comes to Korea, the main problem with the subsidiary is that they seem to work for the customers instead of the organisation they all belong to, Philips. Besides that there are also miscommunication because of the culture and the language.⁶

The contact with the customers is always through the sales team. The local subsidiaries in Japan and Korea are said to be a firewall between the customers and the BL, because emails are never exchanged direct with the customers and everything goes through the local sales and marketing⁷. The competitive advantage that the company has against the two local competitors Sanyo and Niargata is that the BL can offer mass production. A domestic competitor makes it difficult to do business, since they can give better support, they can respond faster, do quality analysis faster. It is seen as a real problem⁸.

- **Background factors**

- *Objective:*

The objective of the relationship with sales and marketing is to satisfy the customer and to see that everything go as planned. The contact with sales and marketing is about strategies,

² Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18

³ Visser, Marco Commercial Marketing. Personal interview 2005-04-11.

Sheikh, Amir International Product Marketing manager for Radio. Personal interview 2005-04-13.

⁴ Visser, Marco Commercial Marketing. Personal interview 2005-05-03; 2005-05-30.

⁵ Sheikh, Amir International Product Marketing manager for Radio. Personal interview 2005-04-13.

⁶ Hof, Peter Manager MST. Personal interview 2005-04-20.

⁷ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁸ Hof, Peter Manager MST. Personal interview 2005-04-20.

project progress, alignment for delivery, alignment about products names etc⁹. Nine out of ten times there is a problem with the customers. One problem can be that an IC is sold that has a bug inside, a delay in the production process or that the customers' forecast was incorrect and they want more IC's delivered. It is also common that the customers want customized products¹⁰.

- *Negotiators:*

The negotiators that are in contact with sales and marketing have different backgrounds. Some have technical background while some have business background. Most of the employees are Dutch while some also are parts of other cultures. Many of the negotiators have taken an internal course at Philips on cross-cultural awareness. This is a three days general course and it focuses on foreign cultures with no specific market in interest. Many of the negotiators have experience from doing business in different countries around the world.¹¹

- **Atmosphere**

- *Conflict/cooperation:* The BL often feel that it can be easier to deal with the customers than with the local subsidiary, they perceive a conflict. The reason can be that the local sales and marketing are afraid of doing a bad performance. When the local team are working with a customer, they never want to let him down. Since in Japan it is important to never let down a customer that has invested in you, they will not only loose their face but their job can also be on risk. The feeling that the BL has is that it seems to be a regional access that drives the local team and not the organisation that they belong to¹².

Conflicts or issues can arise at least once a week. An issue can be that a customer suddenly wants something that can't be delivered immediately. Without a realistic forecast it is not easy to deliver at once. The local subsidiary is often waiting with the customer for the BL to answer. The local team also wants to know that the process is under control. They want to have proof of it so they know that it flows.¹³

They often send questions they want the BL to answer, which are considered easy that they should be able to answer. If a real conflict occurs during a meeting it is important to express the willingness to solve the conflict. The conflict or issues should be marked and taken offline¹⁴. One view from the head quarter side is that The Japanese see you as uneducated, who have not the proper education and not the proper way of interacting with people¹⁵.

⁹ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

¹⁰ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

¹¹ Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18.

¹² Ruttonsha, Rutton General Manager. Personal interview 2005-04-19.

¹³ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

¹⁴ Hof, Peter Manager MST. Personal interview 2005-04-20.

¹⁵ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-2.

- *Power/dependence*: Philips relies on the relationship with the local subsidiary. They are highly dependent on them since all contact with the customers goes through them. The reason that they always are involved is first that they know their market, the language and the culture. Second, it is good that they are involved from the start since they can help the customers when the BL is not present¹⁶.

- *Expectations*: The expectation on the relationship is to increase the business for the BL. An ideal situation would be to build a proactive solution; a proactive solution with cooperation so the answers can be delivered to the Japanese questions. The local subsidiary should be visited even when there is not a problem. Visiting them can increase the building of a relationship¹⁷.

- **The process**

- *Pre-negotiations*:

The first preparation before a meeting with sales and marketing is to go through what happened during the last meeting. When the parties were in contact, what information were delivered, if the same information still is valid, under what conditions was the information delivered and what promises were given between the parties and to the customers.

Information is gathered about the local dress code to come closer to the other party. In Japan people dress up more than in Korea¹⁸.

Before meeting the customers in Japan, there is always a meeting with the local subsidiary where the presentation is shown. The meeting is exactly like the meeting with the customers later on. The local subsidiary even asks the same questions that the customers will ask. The pre-meeting becomes a reversal of the real meeting¹⁹. The local people give their opinions before the final presentation. The meeting with sales and marketing before meeting the customers is helpful for the BL.²⁰

The view from the head quarters is that sales and marketing should know everything about the customers. They should know what the customers are up to. It is like taking the backdoor to the customers, go through their garbage and see what they are up to. They should know if the customers are looking for another supplier and in that case the BL have to change the approach²¹.

- *Negotiations*:

A Japanese meeting with the customers can consist of 15-20 people and each party sitting on each side of the table. The level of authority decides where to sit. Half of the represents are from Philips BL and three of them are from the local subsidiary. Meetings are

¹⁶ Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18.

¹⁷ Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

¹⁸ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

¹⁹ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

²⁰ Pronk, Vincent, Program Manager Industrial and customer support. Personal interview 2005-05-02.

²¹ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

arranged by sales and marketing. They will organise where and when the meetings will be held. A meeting in Japan can take time; the longest was for 7 hours²².

Sales and marketing will translate the technical talk during the meeting from English to Japanese and the other way around²³. The meetings are often started with talk of all sorts of things to much later get on with business. During the negotiation the Japanese are often willing to compromise. The customers can, for example, take a more expensive solution if they are convinced that this is the best solution for them. They are interested in performance, attributes and quality in the products. Performance makes the difference to the perfectionists. The negotiating environment is not interactive. The Japanese will not interrupt and questions are only asked in the end. If they don't like an idea they will put it aside and if necessary get back to it later instead of just rejecting it. When a meeting concern market driven products things will go faster for the Christmas sale, Golden week et cetera. What is committed during the meeting is important to stick to. If the production process or the delivery is delayed then the local sales and marketing need to be informed. Contracts are not commonly written in Japan. To give your word is enough and to break it means to danger the relationship and also to loose face.²⁴ Once they have decided and started the relationship building then they will stick to their words and therefore contracts are not needed. "It is a gentleman's agreement"²⁵.

- Post negotiations:

After a meeting there is a quick talk with the local team on how it went. They can give the best feedback. They will inform how the meeting went, but still in the Japanese way²⁶.

Once the BL has returned to the Netherlands they can get a few pages with questions from the local sales and marketing (and through them from the customers) asking things that they dealt with during the meeting. It shows that the meeting was not successful and that there was a lack in understanding.²⁷

- **Culture**

- Relationships:

The BL needs to have good relationships with the local subsidiary so their relationship with the customers will be good. Relationships will form a blockade and keep competitors out. It will also avoid price wars with the customers. Trust is developed by honestly; overtime, consistent deliver, support, and that thing are under control.²⁸

In Japan, the business society is based on recommendations and having contacts. Without recommendations and contacts it is hard to get in to the business society and to meet

²² Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

²³ Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

²⁴ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

²⁵ Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18.

²⁶ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

²⁷ Hof, Peter Manager MST. Personal interview 2005-04-20.

²⁸ Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

the right people. The Japanese organisation structure is almost like a “mafia organisation”. The most senior man is the one everyone trusts and relies on. So to get things achieved one need to find him.²⁹ There the subsidiary serves as an important link, since they know the way to do business in Japan.

- Pattern of communication:

One can never say “no” in Japan. It can danger the relationship to say it. One needs to find alternative ways to communicate with them. Instead of saying “no we cannot do this” one could say, “ this will be difficult, maybe an alternative way is better to do it”. It is said to be rule number one, to never say no. If the customers don’t choose your product, if they have chosen a competitors product, they will also say it in a different way like “the project is cancelled or delayed”³⁰.

A conflict doesn’t arise when negotiating with the Japanese it is mainly because of the language and the culture. There can be hard discussions but they don’t get nasty like Dutch meetings sometimes can be. The Japanese excuse the rudeness of the Dutch; they see many things in the behaviour as rude. Directness is not the appreciated with the Japanese they since their way of talking is implicit.³¹

There are often misunderstandings in Japan, both with customers and with the sales people. They speak English, but the level of English is not very high. During a meeting they will talk in Japanese. Therefore it is important to observe their body language and their translation. It is important to find ways to check if the message you try to pass reaches them. That is a challenging part to translate their body language³². If a question is posed to a Japanese person and he answers immediately, it means that he did not understand the question. If he answers “yes” after a while it means that he understood³³.

Once in a meeting one of the Japanese all of a sudden busted out in laughing. That meant dead lock, the whole thing collapses and there was nothing to say. It was a situation of total embarrassment where Dutch people would maybe cry instead of laughing³⁴.

The Japanese ask so many questions and many of them are obvious questions. An example is if someone explains, “to do this thing you have to turn to the right”. In Japan they will have to ask: “do you mean that I have to switch to ‘on’ position and the light will go on?”³⁵.

The translation to Japanese during the meetings takes time. One line is translated into ten lines “honourable customers, we are delighted to be here...we want to tell you a nice story

²⁹ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

³⁰ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

³¹ Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18.

³² Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18.

³³ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

³⁴ Kees, Joesse Business Development incl TV on mobile. Personal interview 2005-04-20.

³⁵ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

but we also have some negative things to discuss”³⁶. The conversation becomes easier if there is a close relationship. To say that you don’t know something and need to get back on it, gives a bad impression³⁷. A two hours meeting can consist of 75% Japanese and 15 % English spoken³⁸.

- Time:

“Time is money and everything has to go fast” is the view of time in Japan. There are two types of time. First, is the negotiating time, which is unlimited. Second, is the time to execute projects where everything has to go fast.³⁹

On one occasion a meeting took more time than planned and the Japanese person did not say that they were in a hurry. If they had interrupted to inform this the other party would have lost their faces. In stead they continued, still knowing that they would get in trouble themselves later.⁴⁰

Once the BL is in Japan they want to give value and support so much that they can, but in a reasonable time of business hours⁴¹.

- Individual/collective behaviour:

A decision will never be delivered during a meeting. It would mean that the party would loose face. The decision making process is an iterative process in Japan that can take time. It can iterate until a compromise is reached.

Decisions are often taken before the actual meeting and if the customers would not be interested in finding a solution or compromise they wouldn’t be there⁴².

- **Strategy**

- Presentation:

Presentations are most often not shared with sales and marketing before coming to Japan. The presentation is commonly done during the flight. The presentation is not adapted to the Japanese market. Instead it differs if there will be engineers in the meeting, then it will be more technical. Or if it will be managers in the meeting then there will be more focus on the process. Usually more PowerPoint’s are used in Japan than anywhere else in the world. It is important to be clear in a presentation and the press on the key points.⁴³

³⁶ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

³⁷ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

³⁸ Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

³⁹ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁴⁰ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁴¹ Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

⁴² Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁴³ Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

5.4 External findings for Japan

Japanese companies are adapting and changing very fast. They prefer to work with companies with equal adaptation and fast change⁴⁴. Relationships are easy to build in Japan and knowing the language makes it easier.

In Japan they don't view you for the person you are, for example as Mr. Anderson. Instead they view you as Mr. Philips for the company you work for and then as Mr. Anderson. For Dutch people this is hard to realize. They want to be seen for the individual that they are. The difference between individualistic and group belonging is one big characteristics of the Japanese culture. Another difference between the Netherlands and Japan is that Dutch people involve private life in the company, which by the Japanese is said to be a loss of productivity. In Japan it is common that the colleagues don't know anything about the persons personal life⁴⁵.

Japanese is a difficult language that is highly influenced by the culture. It is not only learning words and grammar, it is necessary to know their culture in order to understand it. In many Japanese companies they often choose the person that has the best English to be in contact with foreign companies, but that is not always the right person for that position or job. The language consists of 80 % the cultural language and the rest is about learning about the Japanese society, politics etc to better understand the people, their business and the country.

One example of a big difference is when writing a letter. In Western country's we start with the name, address, postcode and then the country. While the Japanese start with country, city, block of house and in the end the name. This also explains the approach how they work in a company. They first want the over all picture, e.g. when they view a person for the company he/she works for and then they see the person. Westerns and Dutch in specific are often very individualistic and want to show themselves. While the Japanese work in groups and teams and want the whole group to show performance. This causes a huge clash between Japan and the Netherlands⁴⁶.

Japan is a land full of rules. It is sometimes said that Japan now is like Holland in the 1950's⁴⁷. One example is that the company you work for is responsible for you once you have left home with the intention of going to work. If something happens to you on the way then the company is responsible for it. The companies say it is too risky to go to work on bikes. When people accept rules and norms like this example in the society, then they are considered grown-ups. Compared with the Dutch people who would say that these rules are ridiculous. They would say this is their own responsibility and think it would be childish.

A conflict or a dislike is never shown in front of others. In Japan you never see anyone shout or scream. One example of the consideration they show is that they don't even speak in

⁴⁴ Rummelink, William Director Japanese-Netherlands Institute. Teleconference interview 2005-05-11.

⁴⁵ Rummelink, William Director Japanese-Netherlands Institute. Teleconference interview 2005-05-11.

⁴⁶ Rummelink, William Director Japanese-Netherlands Institute. Teleconference interview 2005-05-11.

⁴⁷ Rummelink, William Director Japanese-Netherlands Institute. Teleconference interview 2005-05-11.

mobiles when travelling on the train. They can send SMS or play games on the phone, but they will never talk of the consideration that they show others.⁴⁸

When negotiating, the understandings between the parties from different cultural backgrounds depend on the character of the person. Strong personality is not a good characteristic to do business in Japan. Qualities that are wanted in a person is the ability to adapt, show consideration and patience. If these qualities exist in the person that wants to do business then results will be shown quickly. Adaptation, adjustment and being a part of the whole than just you are qualities that are wanted with people doing business in and with Japan. Some people find it easier than others. Japan is a country of social harmony where people work together and avoid conflicts.⁴⁹

5.5 Negotiation process with the Korean subsidiary

There are great differences when doing business in Korea than in Europe. If Korea is compared to Japan, it is harder to do business in Korea⁵⁰. There are no local competitors in Korea but the market is big and attractive for foreigners companies that want to do business there.⁵¹

- **Background**

- *Objective:*

The objective with the Korean subsidiary is the same objective as with the Japanese subsidiary: satisfying the customer is the objective of the relationship. The contact with sales and marketing is about strategies, project progress; alignment for delivery, alignment about products names etc⁵². Nine out of ten times there is a problem with the customers. It can be that a sold IC has a bug inside or it can be a delay in the production process or that the customers' forecast was not right and they want more IC's delivered. Customers often have questions about customized products.⁵³

- *Environment:*

Once a big Korean customers were invited to the Netherlands for a workshop. They were taken to Philips Sports arena (PSV) in Eindhoven, the Netherlands, to watch a football game. There was a Korean player in the team, Mr. Park, who came to the lounge after the game to meet the customers. The customers got very excited and after that the meetings and the negotiations went much smoother.

⁴⁸ Remmelink, William Director Japanese-Netherlands Institute. Teleconference interview 2005-05-11.

⁴⁹ Remmelink, William Director Japanese-Netherlands Institute. Teleconference interview 2005-05-11.

⁵⁰ Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18.

⁵¹ Hof, Peter Manager MST. Personal interview 2005-04-20.

⁵² Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

⁵³ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

Another example of the environment influencing the business relationship is the Dutch coach, Guus Hiddink, in the Korean team that helped them advance into a good position in the world championship. He is famous, every one knows him, talks about him, he is seen as a god, he gets allowance, he is a special person, he has entrance, hi is a privileged citizen. Everyone knows what the team has done one day earlier. That is a link to reach the Koreans. The Koreans are being loyal to a certain level, but they will not make stupid decisions just because they like you. There is always a business rational mind behind it. Things looses up when you have something in common to talk about⁵⁴.

- *Negotiators:*

The negotiators that travel to Japan also travel to Korea to do business. Some of them have technical background while some have business background. They belong to the Dutch culture while some also belongs to other cultures. Many of the negotiators have taken an internal course at Philips on cross-cultural awareness. This is a general course for three days and it focuses on foreign cultures in general with no specific market in interest. Many of the negotiators have experience from doing business in many different countries around the world.⁵⁵

- **Atmosphere**

- *Conflict/cooperation:* The Korean subsidiary is complicated since it feels like they are working for the customers instead of Philips. They seem to form a blockade between the customers and the BL⁵⁶.

One example of an issue is the business that recently started with a big customer who wanted customised products. Normally, it will take 14 weeks to make a product, but when it is a customised product it will be an additional step in the production process and will take more time. Since the customised products are not in stock, the customer need to have a good forecast of their sales, so semiconductors will now how much to produce. The customer that work close to sales and marketing and they could not give a forecast in time. They wanted the products when they needed it and it was a headache for everyone involved⁵⁷.

- *Power/dependence:* Like with the Japanese subsidiary, Philips relies on the relationship with the local sales team in Korea. They always goes through the local sales teal because of two reasons. First, they know the market and second they can help and support the customers when the BL is not present⁵⁸

⁵⁴ Joosse, Kees Business Development incl. TV on mobile. Personal interview 2005-04-27.

⁵⁵ Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18.

⁵⁶ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

⁵⁷ Sheikh, Amir International Product Marketing manager for Radio. Personal interview 2005-04-13.

⁵⁸ Zidek, Ludvik International Product Marketing Manager for Wireless. Personal interview 2005-04-18.

- *Expectations*: Long term expectation on the relationships that the local subsidiary will grow the business even faster, inform about risks in the market so it is beneficial for the business. They should become the allies. Long-term expectations keep our promises to build a trust relationship where everyone will work together in a team. Sales and marketing should be on our side, but they take the customer side very often.⁵⁹

- **Negotiations**

- *Pre negotiations*:

Often there is no pre-meeting with the local subsidiary before meeting the customers. When there is a pre-meeting with them it is to discuss the days agenda, what points to get across, likely situations that can occur, what are the key points they will look for.⁶⁰

- *Negotiations*:

In meetings there are often five people from the Philips BL side, and equal number from the customers side.⁶¹ One person is present from the local sales and marketing office. Once the Philips people were five and the other side were only four. Then the customers had to bring one more person too the meeting. In Korea it is important to always be the same number of people, so the side that have more representatives will not be given an advantage. Sometimes when the customers have technical issues to solve they can just leave the BL in a room, close the door and tell them to inform when they have solved the problem⁶².

- *Post negotiations*:

After the meeting a few words is shared with the local team on how it went⁶³. It has happened also in Korea that after a meeting when the BL is back in the Netherlands that they get long emails with questions, of what the meetings were just about. It shows that the meeting was not successful and that there was a bad understanding.⁶⁴

- **The culture**

- *The relationship*:

On one occasion in Korea the customers were questioning a BL person in a meeting. The sales team were on the customer's side, instead of on Philips side⁶⁵. There is some distrust between the local sales team and the BL. Once we had told them to deliver and then we could not.⁶⁶ For every business it is necessary to have close relation with the persons you want to do business with. You need to build up relations. The relationship is build through visiting, the

⁵⁹ Hof, Peter Manager MST. Personal interview 2005-04-20.

⁶⁰ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁶¹ Van der Last, Rudolf Program Manager Business Creation. Personal interview 2005-04-29.

⁶² Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

⁶³ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁶⁴ Hof, Peter Manager MST. Personal interview 2005-04-20.

⁶⁵ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁶⁶ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

same person every time. Until he knows you and familiarizes with you. That helps. It takes at least a year to build a relation.⁶⁷

It is difficult to build a relation in Korea⁶⁸. When it is built it is considered artificial. They are only loyal to the lowest price. They are very much price oriented and that also depends⁶⁹. Trusts is developed by honestly, overtime and consistent deliver what is promised.

Conflict or issues should be marked and taken offline. Express the willingness that you want to solve the conflict but you cant. Issue can be that the customer suddenly wants something we cannot. They did not forecast it and now they want it. Sales and marketing in between they should work with the customer so they understand that we do everything we can to help them, but they must inform them etc. some of them are minor some are bigger. It depends. The BL give reports that maybe they don't like.⁷⁰

- Pattern of Communication:

First time I went to Korea was the first time I went to Asia and it was horrible. I was there and I was told that these guys are trying to use our IC's but for some reason it is not working "go over there and check their hardware and their software". The Korean subsidiary escorted me and when I saw their schematics I said something like: "This is wrong!" and pointed to the point that was wrong. Then the guy at the other side of the table, which was the customer, he started to get angry, mad and started yelling (in Korean) with his colleagues. The sales and marketing team from Philips that came with me they kind of saved the day. They started talking to the customers and negotiating.

I did not know, I just pointed out the error in their schematics like I would have done in the Netherlands. I should not have done like this. I should have said something like "this is very good, a great way but we can also do like this". It actually took ¾ of an hour until he calmed down. Then they explained me how I should do it and how to behave. People in Europe had warned me but I did not know it was like That, or that it was really true.

Finally he calmed down, and the next day it was still an error in his schematics and I said "this is very good, but if we do like this it is a little bit better". I thought it was when only discussing prices and stuff you have to be careful and diplomatic. But it is always. It was an eye-opener. I did not understand anything what happened. I thought he did an error, so what?

Now I know that he lost his face in front of his colleagues and his boss and that was the worst. I felt very bad and when I tried to fix it, it only got worst. The loosing face is so important. That particular meeting with that Korean, it was so bizarre, I felt so bad I just wanted to run out and cry. I brought all the bad news, and gave the wrong answers and after all that he took us to the most expensive restaurant in the city. I don't understand why. I don't understand their behaviour.⁷¹

The local subsidiary translates the Korean into English. Translated Korean always start a sentence with "and then the customer...". The letter "F" becomes "P" and "P" becomes "F" in

⁶⁷ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

⁶⁸ Van der Last, Rudolf Program Manager Business Creation. Personal interview 2005-04-29.

⁶⁹ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

⁷⁰ Hof, Peter Manager MST. Personal interview 2005-04-20.

⁷¹ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

the pronunciation. The way they speak can sometimes make you crazy. It takes so long for them to get to the point.⁷² The language problem is enormous in Korea.

It is tiring to use short sentences and very simple sentence constructions when talking with them. Sales and marketing can from two sentences of English translate in ten minutes Korean and then they will just deliver a answer like “yes”. Without the local sales people nothing would be done⁷³.

Culture and language are very much related, the culture is much deeper than the language. History and culture influence the language. Sometimes one can feel that the war is still in Korea. Someone can help and translate but in the end the culture is left. It would make a difference if we spoke Korean fluently to understand when they are talking with themselves in meetings⁷⁴.

- *Time:*

Last time I arrived in Korea, the flight left at 4 PM from the Netherlands and we worked all night in the flight until we arrived at 4 PM in their afternoon. When we arrived the local sales and marketing wanted us to go directly to the Customers at 5 PM.

We did not sleep and want to meet the local sales people before going to the customers, so we have a clear view of why we are going there, what we will achieve and how. We must have a clear Philips view before meeting the customers. I know people that have gone to the customers and they have stayed there until midnight. I told them that we haven't slept so forget it. They accepted it at the end. Sometimes they will bring things to you very strong and then you have to be strong back⁷⁵.

The Koreans want immediate actions. For example when they have sent an email with questions they expect answers right away. They want everything to go fast. When they face a problem it is escalated and they often do things in the last minute⁷⁶.

They always want to get down to business and they always seem to be under time pressure. They sometimes make themselves not available, and do not come to meetings. If a meeting is interesting for them, they will interrupt to call in more people that could be of interest. Korea is a fast moving country and they want to achieve things very quickly⁷⁷. The Koreans search for an immediate solution with the right price. They want to know who are already using your solutions, they ask direct questions. If you don't have an immediate solution for them then the meeting is already over.⁷⁸ Speed is number one for the Koreans if you don't have the product in time then they will change supplier⁷⁹.

⁷² Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁷³ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁷⁴ Lefever, Benjamin Manager Cust. Sup. DSP. Personal interview 2005-04-29.

⁷⁵ Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

⁷⁶ Pronk, Vincent Program Manager Industrial and customer support. Personal interview 2005-05-02.

⁷⁷ Zidek, Ludvik International Product Manager. Personal interview 2005-04-18.

⁷⁸ Huijser, Jan-Paul International Product Manager Class D. Personal interview 2005-04-20.

⁷⁹ Ruttonsha, Rutton General Manager. Personal interview 2005-04-20.

5.6 External findings for Korea

The Koreans are very fond and proud of their culture. They are proud that they have maintained their own culture since their ancestors and have not been influenced by the Chinese or Japanese culture since the occupation.⁸⁰

The country is changing so fast that it is said to be changes every 5 minutes in a street. It can be a new building, a new office, a new shop or something similar. They have high ambitions on growing, expanding, building and gaining. They want to show the rest of the world that they are independent and can build their country after the wars.

Relationships are not easy built in Korea. Not private relationships or and not for business purposes. The Koreans tend to always think of their own interest. Only if they can find value and gain something then they will build a relationship.

The population are hard working people and woman are both accepted and seen in the business world. The man has more value and is often seen in higher positions, but woman are not neglected as the case is in Japan.⁸¹ It is a special culture where woman are respected in business but there are few woman in high positions. It can't be compared with countries like China or Taiwan where woman in high positions are common. Also young people are common in the business in Korea, compared with Japan where there are many old people working. Negotiations can be tuff since the Koreans are a bit aggressive. They can yell and even take of their shoe to hit the table. With a wide experience from doing business in Asia the vice president at Teleca knows that it is very important to treat all the countries differently.⁸²

The two key characteristics to succeed with a negotiation in Korea is to build trust. Trust is built by showing the other party that you are a trustworthy partner with actions. You have to show that you are there and can take actions. One example is when that a Korean subsidiary to Teleca AB called home to the vice president at 11 PM and said that they needed her the following morning. She booked her flight and went to meet them direct from the airport. She did not even have time to talk with her colleagues before leaving. It is one action that increases the trustworthiness as a reliable partner. Koreans often come to work around 11 AM and work until 11-12 PM so the people that are sent to Korea must be aware of this.⁸³

South Korea is a collectivist culture, so the group rather than the individual prevails. Decisions are made with the consensus of the group, and deference is given to the oldest or most senior member⁸⁴. The cultural and the linguistic gap between the Netherlands and Korea are not very big when compared to other European countries⁸⁵. It cannot even be seen as a problem and the obstacles are small.

⁸⁰ Replear van Driel, Mechteld Exchange student in Korea. Teleconference interview 2005-05-12.

⁸¹ Replear van Driel, Mechteld Exchange student in Korea. Teleconference interview 2005-05-12.

⁸² Sundqvist, Åsa Vice President Teleca AB. Teleconference interview 2005-06-01.

⁸³ Sundqvist, Åsa Vice President Teleca AB. Teleconference interview 2005-06-01.

⁸⁴ Replear van Driel, Mechteld Exchange student in Korea. Teleconference interview 2005-05-12.

⁸⁵ Kwon, Oh-Suk Director KOTRA. Interview via e-mail 2005-05-11.

6. Analysis

6.1 Introduction

The analysis integrates the literature review with the empirical findings. It discusses the importance of different variables. The empirical findings will be analysed to understand what factors influence the process and how a company like Philips can make the process more effective. The modified model is applied to the empirical findings to see how a new model can be developed.

6.2 Cultural analysis

The empirical findings shows that culture influence the negotiation. The culture determines the behaviour, the language, the way of thinking and acting like the literature review suggests. The culture becomes an important factor in the negotiation in head office subsidiary relationship. “First time I went to Korea was the first time I went to Asia and it was horrible” is one experience shared from the BL.

The loosing face is an important part in both the Korean and the Japanese culture, a high degree of respect is involved and to make someone loose his/her face can give unwanted consequences that can affect the relationship and the business negotiations.

Hofstede’s cultural forces agree with the empirical information gathered to some extent. The forces suggest that Japan has high masculinity and high uncertainty avoidance, which is agreed by the empirical findings. However the suggested high individualistic behaviour suggested for Korea does not agree with the findings. The findings rather say that it is a collectivistic society. High uncertainty avoidance and low masculinity are correct with the findings. For the Netherlands high individualistic behaviour and low masculinity are correct from the findings. When comparing the three countries Japan is one extreme in one end and the Netherlands is one other extreme is the other end while Korea is somewhere in between, sometimes more on the “Japanese” side and sometimes more on the “Dutch” side. This would suggest that it would be easier for the Dutch people to negotiate with the Koreans. But since that is not the case, we understand that culture is not the only source of influence on the negotiations.

6.3 Relationship marketing and head office subsidiary relationship

One challenging mission from the head office subsidiary literature is the aspect of culture and control between the headquarters and their subsidiaries. As suggested from the literature subsidiaries that are located far from the headquarters often feel a lack of the organisational culture, i.e. socialisation issues, and therefore they are often more influenced by the regional culture in the country. This by the headquarters is seen, as they are regional driven more than

they are organisational driven. The subsidiaries are said to have stronger feelings for their country, its culture and the local customers than with the headquarters. This is noticed by the head quarters in the findings and they have difficulties understanding why. It only agrees with the literature that it is difficult to have a strong organisational culture when the subsidiaries are located far from the head quarters and to maintain a strong organisational culture becomes a challenge.

It is suggested by the relationship literature that it is important to build relationships in the business. The Japanese findings show that it is true. It will take time to build relationships in Japan but once they are built they will make the business easier. The Japanese need to trust their partner before doing business and when they trust you in a relationship then they are loyal. It is a blockade that is formed between the parties to keep other actors out. Since the relationship is built on trust, everything works after it. Contracts are not written, to give your word is enough and to break it would danger not only the relationship but also the future business.

In Korea, on the other hand, the empirical findings don't fully agree with the literature. The literature suggests that relationships are important for the business in Korea. While the findings from Philips suggest that relationships are not important. They show that the Koreans are only interested in building a relationship where they can gain something from it. When they can gain something from it they will only let the relationship come to a certain limit. Even when and if the Koreans are in a relationship they are not being loyal as compared with the Japanese. They can easy break a relationship. So the relationship with Koreans is seen as a transparent and artificial relationship from Philips. Still by this, relationships are important in Korea but at their conditions. By the Westerns the Koreans are considered short-minded in their thinking and in their acting since they don't see the value of relationships. Apart from relationships, another essential point for Koreans is trust. Trust will increase the trustworthiness for the other party. One example given in the empirical findings is the Korean football player and the Dutch coach. They give representative examples of the collaboration between the Dutch and the Koreans, and it also shows the trustworthiness of the Dutch. One Dutch person has helped the Koreans to advance into a good position and the Dutch people are considered good. The opposite, a bad example of a Dutch person, would probably decrease the trust in the Dutch. The trust will increase the trustworthiness in the actual business and for a short period, it should not e considered a long-term solution. The Koreans will still make rational decisions. One other example is given by the vice president at Teleca that they want the company to show dedication for the business. Which is shows through actions.

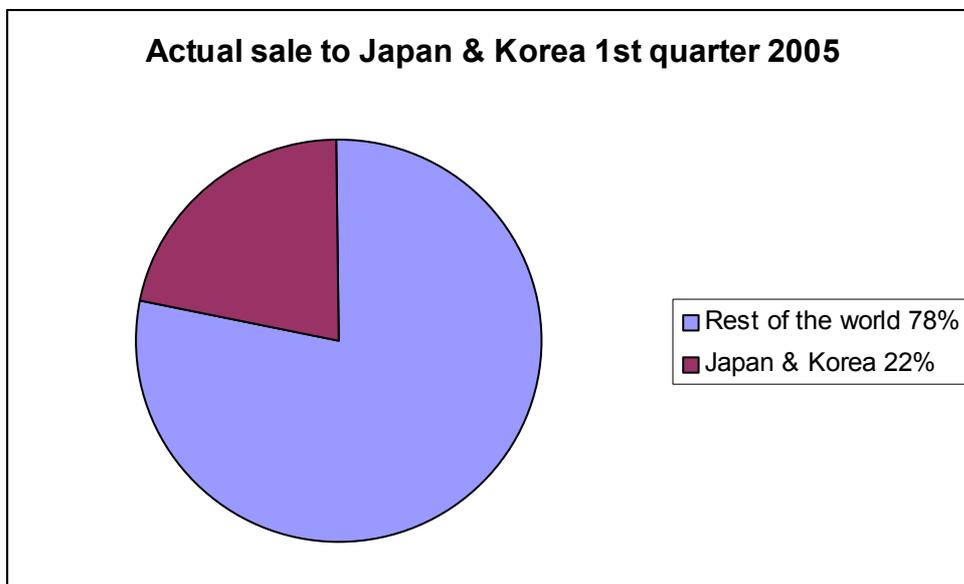
6.4 The Japanese and the Korean market

The Korean and the Japanese markets have special characteristics. For the Europeans they are seen as complex since there are many factors to consider and one cannot go and sell without a pre-knowledge of the countries and their cultures. Japan is as a high technology country that is developing fast with big companies. These companies serve as potential customers for the Semiconductor industry. The practise of competitive intelligence can learn a lot from the industry and the competitors.

The Korean market has big customers in the industry. There are no local competitors to compete with; all the competition is with foreign companies. The competition with foreign companies gives the BL equal chance as the other competitors in the market. When the local companies cant choose a local company as their supplier then they will have to choose a foreign company. So the competition between the foreign companies is about convincing them that you can offer the best solution and service to the right price.

In terms of sale for the BL Japan and Korea are important markets. Based on the actual sales in the first quarter 2005, the Japanese and the Korean market stood for 23, 5 % of the total sale in the world as illustrated by the pie diagram in figure 6.4.

Figure 6.4 Sale to Japan and Korea 1st quarter 2005



The figure above illustrates the share that the Japanese and the Korean market stand for in terms of actual sale from the first quarter in 2005. Japan and Korea together has 22 % and the rest of the world stands for 78 %. This is the actual sale, when not much effort is done to increase the sale in the two markets.

If the percentage continues to be 22 % without an effort made, it is still between 1/4 - 1/5 of the world's total sale for the BL in Semiconductors. The two markets are like already mentioned high-technology countries with many local technology and electronics company that can be potential customers for the BL, and it would be possible to increase the sale if more efforts are put in.

6.5 Negotiation process analysis

The temporary model suggested in chapter 3 was implemented in the empirical findings. As already pointed out the head office doesn't see the relationship clear with their subsidiaries. They often see their relationship with the customers and that the regional subsidiaries are in-between that relationship. But it seems difficult to separate the two relationships. They often treat the subsidiaries in Japan and in Korea in a similar way. Table 6.5 illustrates the main differences and similarities between the negotiations with the two subsidiaries that are studied.

In many variables the two countries are treated the same. For example the objective of the negotiation is to "grow our business". It is a very diffuse and uninformative objective. This section showed what variables existed from the model and which were not. First, the negotiation in head office subsidiary is not a process. They don't prepare before the negotiation and they don't have a post negotiation. The differences and the similarities can easily be illustrated by table 6.5.

Table 6.5 Model analysis

Subsidiary Variables	Japan	Korea
<u>Background:</u> Objective	-Support and help the customers	-Support and help the customers
Environment	-No information	-Common interests Ex. football
Negotiators	-Technical and business background Different cultural backgrounds background,	-Technical/business Different cultural often same people that goes to Japan.
<u>Negotiations:</u> Pre- Negotiations	-Always meets at the local office before meeting customers	-Sometimes meets at the customers
Negotiations	-15 to 20 people, 3 from the local office	-4 to 6 people, 1 from local office
Post- Negotiations	-Not clear defined, small talk with local office	-Not clear defined small talk
<u>Atmosphere:</u> Conflict/ Cooperation	-Seem to be afraid of doing bad performance. Regional Access drives them. Everything for the customers.	-Seem to work for the customers. Form a blockade between the customers and the BL.
Power/ Dependence	-Relies on the relationship with the local subsidiary	-Relies on the relati- onship with the local.
Expectations	-Grow and increase the business	-Grow and increase the business
<u>Culture:</u> Personal Relationships	-Big emphasis on personal relationships	-Only if they can win on it
Patterns of Communi- cation	-Culture very big influence, complex language	-Culture big influence
Time	-Not as important as in Korea	-Very important Want direct solutions

When comparing the two countries in table 6.5 one easily notice that there are not big differences. The two subsidiaries are treated in a similar way even through they are located in different markets and cultures. They are located in different surrounding, they face different competition, and different customers and they are parts of two countries. It becomes clear that this need to be modified. Each subsidiary relationship should consider the environment they are in. For example the objective should be formulated with consideration of competition and customers. Here business intelligence comes as an important ingredient in the out form of a better strategy.

7. Conclusion

The concluding part will answer both the research problem and the purpose. Looking back on the research problem; to understand an international business negotiation in head office subsidiary relationship between a European company and their offices in Japan and Korea. The purpose of the study was to analyse how differences in the cultural background of the parties influence the international business negotiation in head office subsidiary.

The research's problem and purposes are put together under three headings, so all questions will be answered.

Sub-question 1: What are the factors that influence negotiations in a long-term business relationship between parties having different cultural background? With the aim to explore the nature of the negotiation between a head office and its subsidiary.

In a cross-cultural negotiation with head office subsidiary, the *culture* is very important. The importance of culture also agrees with Usunier (2003). The parties that belong to the same organisation, and should be apart of the same organisational culture, will be highly influenced by the country's culture. The national culture offers big differences when comparing Holland-Japan and Holland-Korea. The culture creates a gap in the negotiation. The culture influence the negotiation, it influences how the parties understand each other and how they communicate. The language is a part of the culture and it is highly influenced by the culture, so knowing the language it would still be a barrier with the culture.

The *organisation* itself is also influence the negotiation. As agreed with Walsh (1996) it becomes easy to loose control due to the regional culture where the subsidiary is located. It influences the relationship by its structure and well-defined objectives. A strong organisational culture will make the parties strive for the same goal and work for the company as number one. When the national culture is stronger than the organisational culture then the national culture will take over the organisational culture. The organisational culture is important for subsidiaries abroad so they feel, work and strive for the same organisation as their main drive. It becomes difficult to have a strong organisational culture in subsidiaries but it is important to strive to maintain it. In this study the BL felt that the subsidiaries worked for the customers instead of Philips, this in partly because of a weak organisational culture. It is important for the employees to be a part of Philips and the Philips spirit. Now has the national culture taken over and it is difficult to deal with their own subsidiary in their own company.

Status of the *atmosphere*, refers to the perceived milieu around the negotiation, how the party perceive the behaviour of the other party. It also includes the expectations they have on the relationship.

The *relationship* refers to how well it has been defined, i.e. an objective with the relationship, how the trust is developed and maintained, how the performance is shared between the parties and finally how they agree on centralisation and decentralisation (for more information see model 7).

Sub-question 2: How does the management of the negotiation process change this relationship? With the aim of understanding how companies manage negotiation process in different markets and with different subsidiaries.

The company under study does not apply different strategies and they don't use different persons when doing business in the different countries and cultures. Many foreign cultures are seen and treated like "Asian" and the many differences in all the Asian countries are neglected. The relationship that has been studied now only exists. No efforts are made to improve the quality of it.

It is thereby recommended to adapt different strategies in different markets. The relationship needs to be changed since it is not giving the right value at the moment. By changing the relationship the subsidiaries should be viewed as valuable resources that can help the organisation to grow. They have valuable information that need to be used in the right way.

Since we have noticed that the two markets are very different, different adaptation need to be done when doing business and negotiations in the two markets. For example in Japan, the need of adaptation is bigger than in Korea. This is since the Japanese have very strict rules on the social interaction. It also means that the relationship should be modified. Maybe they will not have the same objective. Since the two markets are very different the relationship is influenced by that.

Sub-question 3: How can companies make the cross-cultural negotiation more effective with their own subsidiaries? With the aim of understanding the role of negotiations on long-term HQ/subsidiary relationship.

It is necessary to *adapt* in negotiations. When the markets have strong culture and strong characteristics like the markets studied it become even more important to adapt. It agrees with the research from Herbig and Gulbro (1997) that the negotiation style that is used effectively at home is not the same can style that can be used in other cultures. It can result in more harm than gain.

International business negotiations among head office subsidiaries are complex but fewer complexes than a negotiation with parties outside their own company. The reason is that there are fewer factors that influence the process of negotiation, and the parties should also be a part of the same organisational culture. Compared with the model used in chapter 3

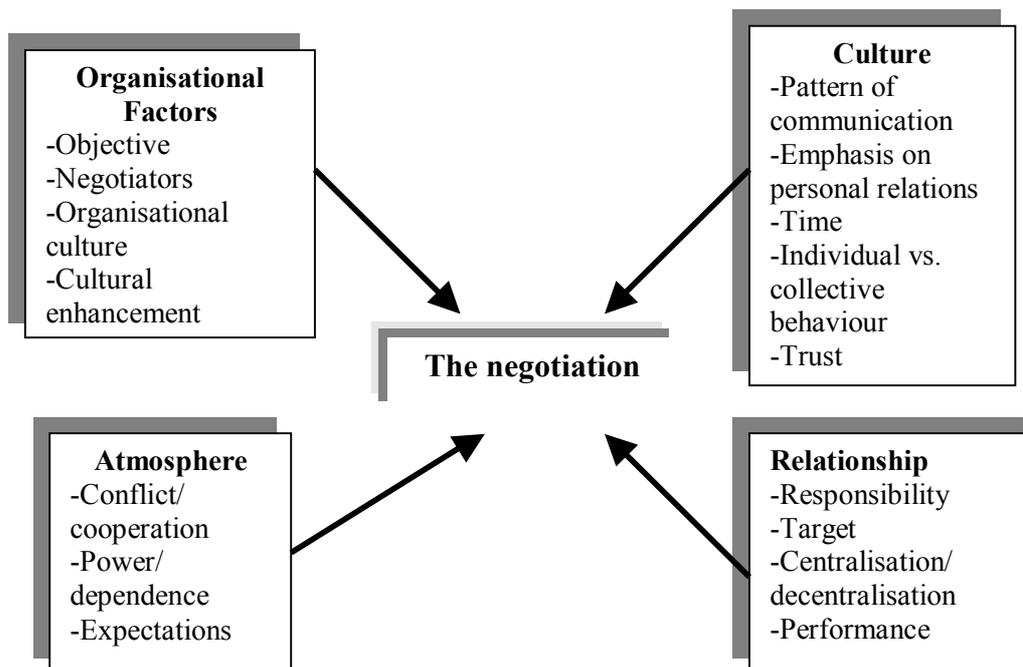
the negotiation is seen as a process, this is not valid in head office subsidiary relationship. There the environment also influences negotiation; this is not the case here either.

Companies can make the negotiation more effective by letting the subsidiaries being a part of the same organisational culture. It will make the parties have the same over all goal and vision. When they are a part of the same organisational culture the relationship must be defined. It includes an objective for the relationship, a vision, plans how to reach the objectives et cetera. Only when the objective is clearly defined, only then they can easier negotiate. The clear objective is condition for the negotiation and the relationship.

Companies can for sure make the negotiation more successful. First that needs to be clear are two variables from the background: the objective and the negotiators. When a clear objective is defined of the relationship then the parties will strive for the same goal and vision. It has to be right person at the right place, not everyone can do business with people from another strong culture. The importance of trust is vital especially when doing business in Japan and Korea. The importance of trust agrees with Morgan and Hunt (1994) “to be an effective competitor requires being a trusted co-operator”. Indeed this is true.

When the background is clearly defined, then the other big influence on the negotiation comes from the culture. The culture influences the language, pattern of communication, the understanding etc. Knowing the language would make some things easier but still the culture cannot be neglected. When there are two strong cultures involved, Holland-Japan and Holland-Korea, then the best solution is to have a link between the parties. The people that are working in the subsidiaries should have the right knowledge about both cultures and the right professional background (in this case technical). This link will have knowledge of both culture and will know how to deal with them for a more successful negotiation.

As a summary and final conclusion a new model has been developed based on the modified model from chapter 3. The model is illustrated by figure 7: a model of a negotiation in head office subsidiary relationship. It shows the factors that influence the relationship in head office subsidiary relationship, so it also gives a framework for how companies can make their negotiation more successful.

Figure 7 The negotiation in head office subsidiary relationship

Source: Fjellström, Daniella (2005)

Organisational factors, atmosphere, culture and relationship together influence the relationship in a HQ/ subsidiary interaction.

Organisational factors

The organisational factors refer to the overall organisation. First, there need to be a clear *objective* between the head office and their subsidiaries. The objective will make them work together, have the same vision for the future and share the same values. The *negotiators* refer to the persons that are in contact with the head office or from the other side with the regional subsidiaries. They need to have the right professional background for the industry they are in, they need to have the right linguistic skills and the right personal characteristics in form of adaptation. The *organisational culture* must be kept strong. When a subsidiary is located far from the head office it is natural that they will loose their organisational culture and become more national oriented for the market they are operating in. To avoid to strong nationalism in the subsidiary the organisational culture must be kept and must be strong. It is important that the subsidiaries frequently visit the head office. This can be combined with internal education, courses and just being a part of the culture. *Cultural enhancement* means that the persons that are involved in business and contact with other cultures must have the cultural knowledge. It is not enough to know about the culture and its characteristics they must also know how to deal with the culture.

Atmosphere

Atmosphere refers to the perceived milieu of around the interaction, e.g. how the parties view each other's behaviour. It has to do with the perception of reality rather than the reality itself.

Conflict/cooperation refers to how well the parties cooperate and how they handle conflicts and various problems. It is natural that some relationships are more conflicting than others. How the distribution is shared between cooperation and conflict depend on how well they follow the objective. Conflict is something that is perceived and it doesn't mean that it has to be a real conflict. *Power/dependence* refers to the ability to control the relationship. It is the perceived power that is in focus with the parties' relative expertise and their access to information. The power relationship is in balance if both parties perceive equal power. If one party perceive more power, or if one is dependent on the other then there is an unbalance.

Expectations have to do with the long-term expectations of the relationship regarding the development of the relationship. The stronger the expectations are the more inclined the parties' are to work together. The long-term expectations are related to the objective. Second, there are short-term expectations of the prospects for present negotiation.

Culture

Pattern of communication different cultures have different communication patterns as regards direct vs. indirect and explicit vs. implicit communication. These are related to culture as well as the contextual background of languages. Some languages are traditionally vague and people from outside find it difficult to communicate with people with such language backgrounds. Indicators such as "maybe", "perhaps", "rather", "I'll consider it" and "inconvenient" are some examples of ambiguity in international communication and conversation. "Maybe" and "inconvenient" can mean impossible in some cultures. In some cultures even "yes" means "maybe" and "perhaps" means "no". It is, therefore, important to be aware of these aspects and read between the lines. This is even more important in non-verbal communication, the personal space, handshakes, ways of greeting each other, communication between males and females, signs of irritation, etc., are important aspects of communication patterns, and knowledge of these can improve the negotiation process and effectiveness.

The importance of *Emphasis on personal relations* is different in different cultures in negotiations. Many countries in the West, the negotiators are more concerned with the issue at hand and the future relationship between the organisations, irrespective of who is representing these firms, while in some cultures, the personality of the negotiator is more important than the organisation he is representing or the importance of an issue. *Time* has different meaning and importance in different cultures. When the negotiation between head office subsidiary is between two parties from different cultural background, it is important to know their view of time. *Individual vs. Collective behaviour* is rather clear behavioural aspects in different cultures. In cases of negotiation, it is important to have knowledge of this cultural attribute, as

it will help us to understand the behaviour of the other party. Knowing whether the opposite party is looking for a collective solution or an individual benefit will help in formulation of the objective. Do develop *trust* is have different meaning in different countries. Some cultures have no interest of trust while other cultures have big focus on it. Develop trust can make the relationship easier. It can also increase the trustworthiness that the other party have for you.

The Relationship

In the relationship the *responsibility* need to be shared between the parties so the objective is reached. The responsibility need to be shared in a fare way. The people that are responsible for something must have the right skills and resources to do the job.

There should be clear and realistic *targets* how to achieve the objective. The targets should be set to the particular market. The targets should be attached to the salary and reward system within the company. *Centralisation/decentralisation* is about deciding what decisions will be made in the headquarters and what decisions will be made in the regional subsidiaries. What authorities will the subsidiary have? What decisions can they make? Once it id decided what authority the subsidiary will have, they must be let to do their work. The performance need to be evaluated. There need to be an evaluation system, how can the HQ measure that the subsidiaries are doing their job? One way to measure that they are doing what they are supposed to is trough the target system.

7.1 Suggestions for further research

International business negotiations and cross-cultural negotiations are wide areas and research within these topics can be angled in different directions. This study examined a relatively new angle, with head office subsidiary relationship between a European company and their subsidiaries in Japan and Korea.

Further research can be done in this field. A broader research can be performed that covers more countries in both Asia and Europe to see how they differ. It would also be interesting to study different companies in the same country to compare how they negotiate, and if the same factors influence the negotiation process.

No matter which focus are chosen, in negotiation studies it is contributively to involve the other party's angle, i.e. the Japanese and the Korean view, because the most important thing when culture is involved is to get the apprehension and the idea that the other party have about the "other side".

7.2 Critical examination of the study

In research it is important to always be self-critical. All methods have disadvantages, because some aspects are captured at the same time as others are left out (Ghauri & Grønhaug 2005).

This study has several limitations. First, data were drawn from a single case company, which was appropriate given the state of knowledge about negotiations between HQ/ subsidiary but which also limited the generalisability of the findings. If more companies were included in the study then it would be easier to make generalisations.

The research process changed during the data collection. Since it was difficult to get the Japanese and the Korean subsidiaries to answer the questionnaires sent to them, the study was completed from the headquarter perspective. This is an important limitation since the Japanese view and the Korean view would have been very interesting to include in the study. It could also have contributed to knowledge about the Japanese and the Korean view of the Dutch people, their ways of doing business and what they found difficult. Questionnaires were sent to the Japanese and Koreans through emails several times with an introduction of the study. The BL persons also sent the questionnaires to them, in order to point out the importance to them. The questionnaires should had been given to the local subsidiary in Korea from one persons in the BL, but when he reached in Korea he did not meet the subsidiary before he went to the customers. In Japan a person gave the questionnaires from the BL but still I did not receive answers. One reasons that the answers were not given by the Japanese can be the Golden week, when there is one-week holiday in Japan, and after and before that week they often have very much to do.

Further more the teleconferencing calls did not occur in the BL, as often as I was told in the beginning. Sometimes they called to Japan respectively to Korea, and just talked on the telephone two persons, and they did not see it as a real conference call and forgot or did not have the time to invite me. Some people in the BL thought that I might have attended conference calls from Singapore, Taiwan, and China among other Asian countries. When I explained that the focus of the study is on Japan and Korea, some of them would say “but it is Asia” and they thought it would give similar observations as with the Japanese and the Koreans just because all of them are Asians. “Asians” is not a culture and myself I think that these countries have some similarities but also big differences in their culture. Therefore I did not find it useful to attend the conference calls where others than Japanese and Koreans were involved since it would loose focus of the study.

The data were limited to a single electronics industry. This can influence the negotiations and that the personal backgrounds of the negotiators become even more important i.e. if they have technical or business background. For example one person with business background negotiating with a person having technical background maybe not has the same understanding. One may also raise the question whether the phenomenon under study is more valid for European companies originating from small countries such as the Netherlands, where negotiations can more easily outgrow their headquarters and the company culture.

The time spent in the Netherlands while doing internship at Philips limited the work in the way that the only contact I had with my supervisor and the opponents were through emails.

I could not attend seminars and get feedback in the class. I also had many other things on mind at Philips that might have limited the work of the thesis to some extent. It was mandatory meetings that I had to attend at Philips and the situation of being “new and alone” in a new company, a new city and a new country can also have influenced the work.

8. Managerial Implications

The findings of the research show that the negotiations between headquarter and the regional subsidiaries have some difficulties in understanding each other. Consequently the managerial implications from this study are several. It is also important to point out that the suggestions delivered are not general in the sense that they can be used in all companies and in all cases. The implications are based on the empirical findings that were gathered in this study. The BL are under this section referred to as the headquarters (HQ).

To improve the relationship between the BL and their subsidiaries are some guidelines:

1. Develop a clear objective

The main implication to the company is to develop an *objective* for the relationship. Each relationship has a reason for existing and especially in business it must be clear why a certain relationship exists. It needs to be clear and defined so that both parties know what their roles are. The shared objective will help the parties strive for the same overall goal and to share the same values. When the objective of the relationship is defined it should be known for all persons involved. One example can be “the objective is to become the biggest Semiconductor supplier in Japan”.

2. Clear and realistic targets

The next step is to decide how to achieve the objective. There should be clear and realistic targets. The targets will clarify how the objective will be reached. We will secure X numbers of new customers (specify which), we will increase our sale to actual customers by Y millions. The targets should be attached to the salary and reward system within the company.

3. Clear responsibility

How and who will the targets be achieved? It means how to share the responsibility. The responsibility needs to be shared so both parties know what their responsibility is and what the other party's responsibility is. For example, the subsidiary will practise competitive intelligence to see how the competitors in Japan are working and what solutions they are offering so we can offer the customers better solutions than them. The subsidiary will also secure the new customers, by finding out their history: where they are buying present, how much, what attributes, what services does the supplying company offer and offer a better deal. The people that are responsible for something must have the right skills and resources to do the job. The head quarters will always and always make sure to supply in time. If they don't, their trustworthiness can be on games, which in turn can danger, the future business.

4. Clear policy about centralisation and decentralisation

What decisions will be made in the headquarters and what decisions will be made in the subsidiary? What authorities will the subsidiary have? What decisions can they make? When the customers need to know something they subsidiary must have some authority of what they can do. If they only serve as a third party, that will translate in meetings, then the load will be too big for the head quarters. The policy of centralisation and decentralisation will give them authority to make some small decisions on their own. Once it is decided what authority the subsidiary will have, they must be let to do their work. When they feel that they can do a valuable work they will become more loyal to the organisation.

5. Clear performance

Clear performance refers to how the head quarters evaluate the work that the subsidiaries are performing. It means are they doing their job? How well are they doing their job? There need to be an evaluation system, so the HQ can measure that the subsidiaries are doing what they are supposed to. One way to measure the performance is through the target system. If the targets are reached then they are doing their performance.

6. Enhance cultural understanding

For negotiation to be successful, a negotiator must put himself in the other party's shoes in order to understand them. Cultural awareness is not just knowing parts of the culture, it is about knowing how to deal with the culture and in business terms how to do successful business there. Cultural awareness means that every person doing business in a market should have knowledge of that specific culture. A course can't consist of the "Asian" cultures, since the "Asian" culture consist of many strong cultures. Each market and each culture must have its own focus. Therefore the course needs to be adapted to the specific need. The course doesn't have to be given in the company. There are many organisations that deal with this kind of things; how businessmen can gain knowledge in a market and its culture. Culture is something you just can't learn; you can't read a culture as a managerial implication means to know how to adapt.

7. The organisational culture

From the conclusion it was said that subsidiaries located in the Far East would naturally become more regional oriented. It is difficult to maintain the organisational culture but it is very important. The subsidiary must be a part of the organisational culture. The organisational culture involves trips to the HQ, education at the HQ, new letters from the HQ etc. If the subsidiaries don't have and feel a strong organisational culture then it will become natural for them to be driven from regional reasons than for the company. A suggestion is that the subsidiary is invited to the HQ, one subsidiary at the time, to spend time, build trust and to develop the objective.

8. Right persons

Right persons must have the right positions. First it means that the people that are working in the subsidiaries must have technical knowledge since they are working in the semiconductor industry. It is also desirable that it would be a person that has the knowledge about the two cultures that are working in the subsidiary offices. Second, in negotiations not everyone can succeed. The people that are sent abroad must have the skill to adapt to different environments.

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Appendices

Appendix I: Interview guide for Philips BL

This interview focuses on the specific relationship that Philips Semiconductor; BL Personal Entertainment Solutions have with their subsidiary in Philips Japan and Korea.

Date:

Name:

Title:

Years within Philips:

Years of experience in business with Japan/Korea:

Background:

-Objectives:

1. What kind of business do you do with Marketing and sales in Japan and Korea?
2. How is the purpose of the meeting achieved?
3. What do you want to achieve when doing business with sales and marketing in Japan and Korea?
4. How will you reach the objective?

-Environment:

1. How are you influenced by the political system in the country?
2. What other factors in the environment have you experienced influence the negotiation?

-Market position:

1. What is your market position on the Japanese/Korean market?
2. How do you handle the local competition in Japan and Korea?
3. How do you practice competitive intelligence?

-Third parties:

1. Which role does marketing and sales have between Semiconductors and the customers in Japan and Korea?
2. How do you handle the language problem?
3. Who is translating in meetings?
4. Is it necessary to use consultants?

-Negotiators:

1. What is your background? (Technical/ business?)

2. How do you find the Japanese/Korean culture?
3. How do you find their ways of doing business?

Atmosphere:

1. What are the short-term expectations you have on the relationship?
2. What are the long-term expectations you have on the relationship?
3. How do you see that the relationship has changed in ten years time?
4. What is the role that the different parties have in the negotiation?

The relationship:

1. How does the relationship look like now?
2. Is it important to have a good relationship when doing business?
3. What is the ideal relationship?
4. How do you think the relationship can be improved?
5. How do you develop trust in the relationship?

The negotiation:*-Pre-negotiation*

1. How do you prepare for a face-to-face meeting or negotiation with marketing and sales in Japan and Korea?
2. What kind of information do you gather?
3. How do you get the commitment of the other party?
4. How do you feel before entering in a Japanese/Korean negotiation or meeting?
5. How do you prepare for different scenarios that can occur?
6. Who takes the initiative for a meeting?

-Face-to-face Negotiation:

1. Which language is used when doing negotiations?
2. How do you handle the language problem?
3. How do you agree to work together to solve something or to make business?
4. How do you share the responsibility?
5. How do you judge opinions and suggestions that they have? Discuss in groups etc?

-Post-negotiation:

1. How do you agree on issues?
2. How do you write or agree on contracts?
3. How do you avoid misunderstanding?
4. How do you know that everyone has understood how to move forward and what to do after the meeting?

Culture

1. What do you think of the Japanese/Korean culture?
2. How does their culture differ from the Dutch culture?
3. How does their culture influence their way of doing business?
4. How is their view of time?
5. How is the Dutch view of time?
6. Do sales and marketing in Japan and Korea search for collective solutions or individual solutions?

7. How do you handle the language problem?
8. How do you read between the lines?
9. Why do you think that you don't always understand them?
10. What would the difference be if you spoke their language?
11. How well do you think the interpreter interpretation?
12. How do they behave when doing negotiation?
13. How do their culture influence their language?
14. How do you read their body language?
15. How does the body language make the understanding easier?

-Emphasis on personal relations:

1. How does the relationship look like now?
2. How can the relationship be improved?
3. Why is it important to have good relationships when doing business?

-Strategic factors:

1. How do you prepare for presentation?
2. How does a presentation look like when it is presented to Japan/Korea?
3. What kind of presentation is suitable for the Japanese/Korean market?
4. How do you select the strategy to apply in negotiation?
5. Who makes decisions in Japan/Korea?
6. Can the people that are in the negotiation make decisions?
7. Would there be a difference if an agent made the negotiation?

Appendix II: Interview guide for the Director at Netherlands-Japanese Institute

1. What is the objective of the cultural exchange office where you work?
2. How do you promote cultural exchange between the Netherlands and Japan?
3. Do you speak Japanese?
4. How is the language influenced by the Japanese culture?
5. How has it become easier for you to understand the Japanese when you speak their language?
6. How do you handle the culture?
7. How do you think it can be easier for Westerns to understand the Japanese people?
8. How can the culture barrier between the countries be decreased?
9. If a person wants to understand a Japanese person, is it enough with learning the language?
10. What are the most difficult parts in the Japanese culture?

Appendix III: Interview guide for the Dutch exchange student in South Korea

1. How did you prepare yourself before you went to Korea?
2. What was your first expression when arriving in the Korea?
3. What had you expected?
4. How do you handle the language?
5. How do you handle the culture in Korea?
6. How do you think their language is influenced by their culture?
7. Do you speak Korean?
8. How would you say that the language makes it easier to understand the Koreans?
9. What would you say are the most difficult parts in the Korean culture?
10. What is important in the Korean culture?
11. How do they view Western people? And how do they feel working with them?
12. How is the distribution of roles between woman and men? Is the woman equal valued to the men?
13. Are there many rules in the society that has to be followed?