



A set-theoretic analysis of negotiations in Japanese MNEs: Opening up the black box☆



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ABSTRACT

This research deals with international negotiations in multinational enterprises (MNEs), in particular the HQ–subsidiary negotiations. The theoretical part of the intercultural negotiation framework (Ott, 2011) highlights the potential for MNE negotiation analysis. An empirical investigation into Japanese MNE negotiations strengthens the theory. Different time perceptions and strategies influence HQ–subsidiary negotiations. The outcome of the fuzzy set Qualitative Comparative Analysis (fsQCA) shows that an integrative approach needs a higher offer with a margin of at least 20% to cover for relationship building, patience and trust.

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1. Introduction

Many international negotiations fail, and when they succeed, the relationships which develop could falter later and the origins of the failure may lie in the previous negotiations. A mismatch in understanding basic negotiation patterns of different cultures is often the reason for subsequent failure, as shown in the literature. Salacuse (1999) states that, for Americans, the negotiation ends in a contract, whereas, for cultures from the Far East, the signing of a contract marks the start of a relationship. There is little systematic analysis of the negotiation behavior between MNEs and subsidiaries. This article deals with opening the black box of international negotiations in MNEs and in particular those with Japanese HQs and their subsidiaries.

This article contributes to the literature in two ways. First, the intercultural negotiation framework facilitates the analysis of international negotiation behavior between the headquarters of MNEs and their international counterparts in subsidiaries. Second, the article links theory and evidence. The empirical focus upon Japanese MNE executives regarding their international negotiation experience gives a fascinating insight into the workings of Japanese MNEs (Tokyo HQ–international subsidiaries). To ensure confidentiality and adjust to a small number of cases (Ragin, 2000), fuzzy set Qualitative Comparative Analysis (fsQCA)

combines an in-depth understanding of ethnographic interviews with a quantitative approach. The theoretical analysis and the empirical investigation provide scientific evidence for the relevance of the initial offer to anticipate a cooperative strategy, and in this way contribute to knowledge about negotiations within MNEs headquartered in the Far East. Furthermore, combining negotiation analysis with a fuzzy set Qualitative Comparative Analysis shows potential for further research.

2. Negotiating in multinational enterprises (MNEs)

Negotiation analysis in an organizational context is relatively young (Putnam, 2004) and would need more focus on multinational enterprises, since social interactions, negotiations and contracts are intertwined in organizations.

2.1. International negotiation analysis in multinational enterprises

An analysis of international negotiations in MNEs needs to consider the specific nature of MNEs compared to other forms of organization (Harzing and Sorge, 2003). Harzing and Sorge (2003) highlight that internationalization strategies are overall concepts of extending operations from domestic base to other countries as well as practices of corporate control in different cultural contexts in subsidiaries influence MNE negotiations. MNEs in the USA, Europe and Japan have different modes of control and ways of communicating, organizing and negotiating. Differences in mental models (Liu, Friedman, Barry, Gelfand, and Zhan, 2012) affect intercultural negotiations in MNEs. The specifics of negotiations within a reactive MNE (with headquarters in a reactive

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country such as Japan, Korea and China) require further exploration. The research questions derive from the negotiation literature and the specifics of the MNE context: How do the MNE negotiations come to a collaborative outcome in light of differences between HQ and subsidiary cultures? Why do Japanese (reactive) MNEs include higher margins in their initial offers in negotiations?

2.2. Intercultural negotiation framework and the reactive negotiator

Distinct from previous frameworks, Ott (2011) proposes a game theoretical framework for different cultural negotiation styles in order to highlight co-operation and conflict that relate to activity types (linear-active, multi-active and reactive negotiators—LMR). This approach emphasizes the likely clash of cultures in nine scenarios. Ott (2011) uses buyer–seller experiments to support the analysis. To evaluate this framework further for organizational situations, cooperation and conflict between specific cultural combinations are of particular interest. HQ–subsidiary negotiations provide a research setting to study how the relationship between a reactive MNE and LMR subsidiary develops and unfolds. Ott (2011) connects cultural differences in bargaining behavior to the range of the initial offer. She shows that the players' strategies relate to the frequency of rejection and the valuation of time. The properties of the model comprise the linear-active, multi-active and reactive type of player: (a) The linear-active player has a short-term perspective $\delta_L \rightarrow 0$. The player poses a concession with a short delay and the costs of bargaining c_L are low due to the short time horizon. Acceptance and rejection lead to the end of the game either with agreement or break-up. (b) The multi-active player has a medium length term orientation $\delta_M \rightarrow 1$. The bargaining costs are high c_H , and the length of negotiations is longer than with the linear-active player. (c) The reactive bargaining type has a long-term perspective $\delta_R \rightarrow 1$. The delay between offers can be long $\Delta \rightarrow 1$. The bargaining costs are high $c_H(t)$, and outside options are relevant even after acceptance $t = \{0, \infty\}$. This article offers a new perspective by using a MNE HQ–subsidiary setting in Table 1, instead of nine buyer–seller scenarios (Ott, 2011). The payoffs are MNE (HQ–subsidiary) utility functions $U(\delta_i) = p(\delta_i) - c, i = [L, M, R]$.

The international negotiation analysis combines the constructs of a negotiation process with the cultural types of the negotiators in an

MNE. Fig. 1 below positions the MNE headquarters of a reactive cultural background and the respective subsidiary in order to show the cultural influence on negotiation style, strategy and outcome. The negotiation style in case of a reactive negotiator will be patient, win–win- and trust-oriented. The time horizon contributes to the cooperation and conflicts in terms of initial offers, negotiation strategy (costs, length), concessions, disagreement and cooperation.

2.3. International negotiation analysis of reactive MNEs

The correlation between the trust building, patience, win–win strategy approach and the length of negotiations of reactive negotiators is in contrast to a short-term or haggling approach. This strategic approach for a MNE setting shows the complexities when the analysis adds the cultural negotiation strategies to the equation. In the context of MNE negotiations, the focus is on reactive types either as HQ of an MNE or as host of an MNE in a negotiation.

The Japanese HQ sends their managers to the subsidiaries (Harzing and Sorge, 2003) in a country of predominantly linear-active (USA), multi-active (Middle East) or reactive (Far East) employees. The following Fig. 2 shows the moves of the players and the strategic options for the players.

The diagram above shows the initial proposal of the MNE HQ player and the reaction functions of the host player and then the move of the MNE player as a reaction to the second player. The time in the negotiation is on the x-axis and the proposals/offers are on the y-axis. The concessions and the negotiation process over time reflect the bargaining process between different cultures. The agreement points and the out-of-equilibrium paths for the three types of negotiators with a reactive HQ visualize the cooperation and conflict.

The negotiation analysis for a reactive HQ and linear-active, multi-active or reactive subsidiaries shows that at time δ_L the linear-active host will accept a proposal of the reactive HQ, whereas it takes δ_M time for a multi-active to accept a reactive proposal. The equilibrium of two reactive negotiators shows how long it would take to build up trust for an acceptable proposal. The first proposition deals with these paths:

Proposition 1. If a reactive MNE HQ makes the initial offer with a margin of x% to include the coverage of the bargaining horizon, then the cultural values of the host will lead to a dynamic bargaining process with

Table 1
Reactive MNE negotiator with linear-active and multi-active counterpart in subsidiaries.

Subsidiary	Subsidiary (Player II)		
Headquarter	Linear-active	Multi-active	Re-active culture
HQ (Player I) Linear-active culture	Similar cultural background with refinements Scenario 1 <i>'Time is Money'-Approach</i> Example: American HQ–German Subsidiary ($U(\delta_L); U(\delta_L)$)	HQ linear-active and Subsidiary multi-active Scenario 4 Example: American HQ–Brazilian Subs ($U(\delta_L); U(\delta_M)$)	HQ linear-active and Subsidiary reactive Scenario 5 Example: American HQ–Japanese Subsidiary ($U(\delta_L); U(\delta_R)$)
Multi-active culture	HQ multi-active and Subsidiary linear-active Scenario 6 Example: Brazilian HQ–American Subsidiary ($U(\delta_M); U(\delta_L)$)	Similar cultural background with refinements Scenario 2 <i>'Haggling'-Approach</i> Example: Brazilian HQ–Italian Subsidiary ($U(\delta_M); U(\delta_M)$)	HQ multi-active and Subsidiary reactive Scenario 7 Example: Brazilian HQ–Japanese Subsidiary ($U(\delta_M); U(\delta_R)$)
Reactive Culture	HQ reactive and Subsidiary Linear-active Scenario 8 Example: Japanese HQ–American Subsidiary ($U(\delta_R); U(\delta_L)$)	HQ reactive and Subsidiary Multi-active Scenario 9 Example: Japanese HQ–Brazilian Subsidiary ($U(\delta_R); U(\delta_M)$)	Similar cultural background with refinement Scenario 3 <i>'Building trust'-Approach</i> Example: Japanese HQ–Finnish Subsidiary ($U(\delta_R); U(\delta_R)$)

Source: Adapted to MNE relationship from Ott (2011).

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