

Cross-Cultural Business Behavior

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A Guide for Global Management

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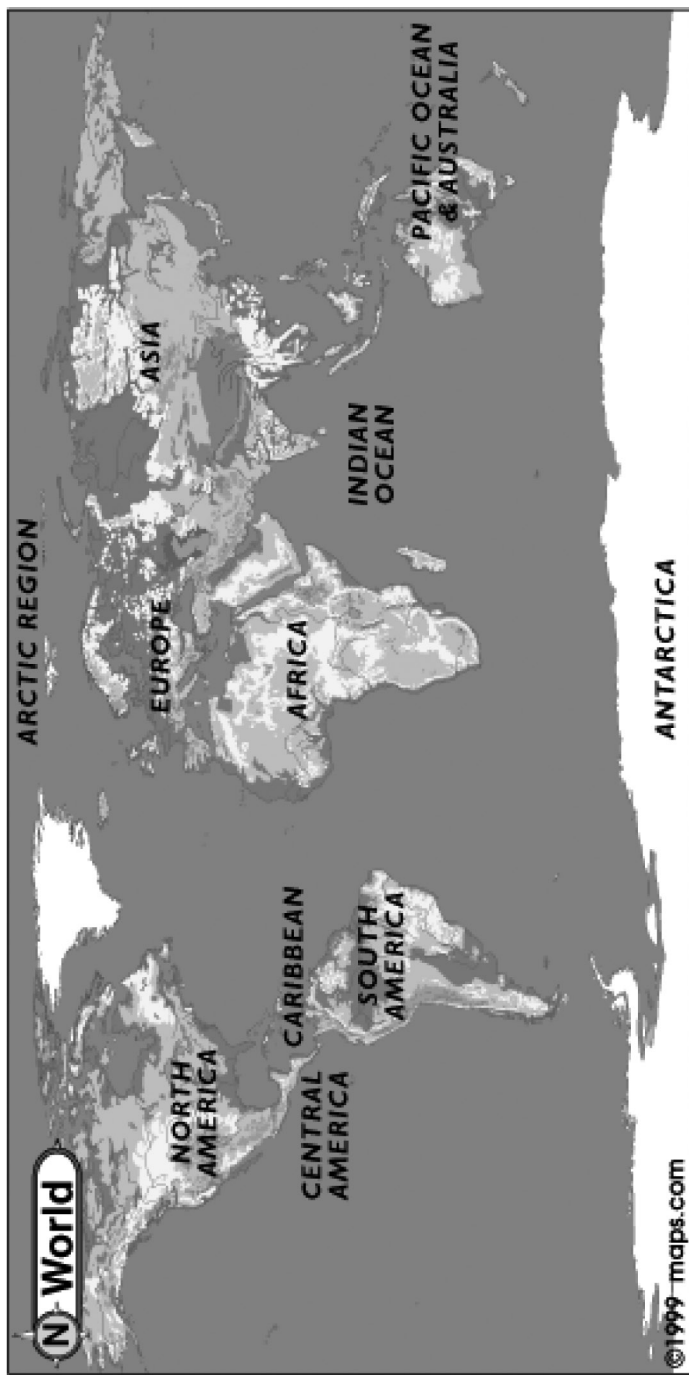
Foreword to the Fifth Edition

Cultures change, and that, of course, includes business cultures. Hence the need to update all 43 Business Behavior Profiles in Part Three of this new edition.

Feedback from participants in hundreds of Global Management (www.globalmanagementllc.com) seminars and workshops since 2005 also revealed the need to revise the framework of business-culture variables presented in Part Two. In addition, readers will find new examples, cases and anecdotes reflecting other changes in business behavior around the world.

RRG
Oregon, Wisconsin
November 2011





PART ONE

The first part of the paper discusses the importance of understanding the cultural context of the research. It highlights the need for researchers to be sensitive to the values and beliefs of the communities they are studying. This is particularly important in the field of education, where cultural differences can significantly impact learning outcomes.

The second part of the paper focuses on the methodology used in the study. It describes the process of selecting participants, collecting data, and analyzing the results. The authors emphasize the importance of using a mixed-methods approach to gain a comprehensive understanding of the research topic.

The third part of the paper presents the findings of the study. It discusses the results of the quantitative data analysis and the insights gained from the qualitative interviews. The authors conclude that there are significant cultural differences in the way that students learn and that these differences should be taken into account by educators.

The final part of the paper discusses the implications of the findings for future research and practice. It suggests that further studies should be conducted to explore the cultural factors that influence learning outcomes. Additionally, it recommends that educators should be trained to recognize and respond to the cultural needs of their students.

Introduction

This book is intended as a practical guide for the men and women in the front lines of world trade, those who face every day the frustrating differences in global business customs and practices. When we were preparing for the first of what turned out to be eight expatriate assignments, I asked my boss how to handle all the myriad differences in business cultures around the world. “Oh, don’t worry about that,” he replied cheerfully. “Just be polite wherever you are.”

Well, we soon found out that what is polite in one culture is often rude in another. So this book really reflects my decades-long attempt to understand the differences and learn to overcome them in the global marketplace.

Cultural differences frustrate us because they are confusing and seem to be unpredictable. This book aims to reduce that confusion and introduce some predictability by classifying international business customs and practices into logical patterns.

The human brain seems to be hard-wired to recognize patterns. Early in my international career I began to recognize certain useful patterns of cross-cultural business and management behavior. With time for reflection in my second career I worked out a way to classify and present those patterns to practitioners, students and readers.

The thousands of business people, engineers, lawyers, medical professionals and students who have attended Global Management seminars confirm that our “Patterns” approach makes sense. Workshop participants often come up after a program to say, “Now I understand what went wrong at that negotiating session last year!”

The Sources

The material for this book comes from three decades of observing business people spoiling promising deals because we were ignorant of how business is done. Some of the cases are based on incidents drawn from my own experience doing business, others from par-

ticipants at Global Management seminars and workshops around the world. Chapter 10 is a partial exception in that a number of examples were drawn from interviews and conversations with business travelers in international airport lounges, hotel bars and restaurants.

My 26 years as an expatriate manager in Germany, Austria, Italy, Brazil, India and Singapore was a rich source of material. I owe an enduring debt to colleagues in the Florence, Frankfurt, Vienna, São Paulo, New Delhi and Singapore offices I managed for their personal support over many years, as well as for useful insights too numerous to mention.

One of those colleagues in particular has continued to offer invaluable advice and counsel over the years: Kishore Babu Agrawal, formerly of the Sears New Delhi buying office.

For one to whom learning languages has never come easily, seeing coworkers in Florence and Frankfurt switch instantly and fluently from Italian, German or French into Spanish, English or whatever was a truly humbling experience. It was the same story in Singapore where some colleagues spoke English, Mandarin and Malay along with Cantonese, Hokkien and Teochew.

This linguistic virtuosity was inspiring because I believe bilingual or multilingual ability is an essential springboard to intercultural competence. And intercultural competence should be the goal of every effective expatriate manager and international negotiator.

The primary sources for the Negotiator Profiles which make up Part Three are the more than one thousand business negotiations I have conducted in some 55 different countries. Organized loosely according to the Patterns discussed in Part One, the Profiles are intended as thumb-nail sketches of the negotiating behavior a visitor can expect to encounter in the markets covered.

The writings of anthropologists, scholars of intercultural communication and researchers provided insights over the years which helped me formulate the Patterns. Among the works I have found especially useful are those by Edward T. and Mildred Reed Hall, Geert Hofstede, Robert Moran and William Gudykunst. None of these experts is responsible for the shortcomings which will inevitably show up in this book.

The basic organization of the book stems from the course I developed and taught as an adjunct lecturer at the Export Institute of

Singapore from 1989 to 1993. The book's focus was sharpened during my years as a visiting lecturer at Niels Brock Business College in Copenhagen and the Copenhagen Business School.

Lauge Stetting suggested I write this book based on my Copenhagen Business School lectures, and his successors and staff at the CBS Press have continued to provide invaluable guidance and support through the five editions. Over the years Hanne Thorninger Ipsen has been particularly helpful. As editor, her constant enthusiasm and gentle wit have lightened the task of writing and revising this and earlier editions.

A very special thanks is due Lester Gesteland, who worked with me on the fifth edition from start to finish. He corrected mistakes, polished the rough spots and sharpened my writing. Invariably, when Lester suggested a different word or phrase it turned out to be the better choice.

入鄉隨俗

Ru xiang sui su

(Enter village, follow customs)

PART TWO

The first part of the paper discusses the importance of understanding the cultural context of the research. It highlights how cultural differences can influence the interpretation of data and the design of the study. The author emphasizes the need for researchers to be sensitive to these differences and to adapt their methods accordingly.

The second part of the paper focuses on the challenges of conducting research in a multicultural environment. It discusses the difficulties of finding a common ground between different cultural perspectives and the potential for misunderstandings. The author suggests that researchers should engage in a process of cultural learning and dialogue to overcome these challenges.

The third part of the paper presents a case study of a research project conducted in a multicultural setting. It describes the challenges faced by the researchers and the strategies they used to address them. The case study illustrates the importance of cultural awareness and the need for flexibility in research design.

The fourth part of the paper discusses the implications of the findings for future research. It suggests that researchers should continue to explore the complexities of multicultural research and to develop new methods and approaches. The author also emphasizes the importance of collaboration and communication between researchers from different cultural backgrounds.

In conclusion, the paper argues that understanding the cultural context of research is essential for producing valid and meaningful results. It calls for a more inclusive and culturally sensitive approach to research that recognizes the value of diverse perspectives and experiences.

1. Patterns of Cross-Cultural Business Behavior

What is a business culture? In this book we define it as *a unique set of expectations and assumptions about how to do business*. A major purpose of this book is to help readers understand their own expectations and assumptions as well as those of their international customers, suppliers, colleagues and contacts.

When comparing business cultures it is important to avoid stereotypes, which are lazy ways of describing people and behavior. We need to remember that no two people of any culture are exactly alike: there are regional, generational and individual differences, among others. So in this book we employ carefully observed *cultural tendencies* when describing similarities and differences in international business behavior.

Here are a few of the questions you will find answered in the pages that follow:

- What are the most important ways business cultures are changing in today's global marketplace?
- In which major business cultures do people often reply “yes” to a yes-or-no question when they really mean “no?” and why do they do that?
- Have email, mobile phones, texting, chat, video- and Web-conferencing eliminated the need for international business travel and face-to-face meetings?
- Why did top executives of a major Saudi Arabian company break off promising negotiations with a Californian firm?
- Where did an experienced Danish export manager go wrong when he unintentionally insulted a Mexican customer?
- How did a North American importer end up with 96,000 sets of mobile phone accessories he couldn't sell because they were improperly labeled?
- What did a world-brand Nordic brewery do to cause their Viet-

- nameless partners to abruptly halt negotiations on a joint-venture project?
- Which rules of protocol did a Western executive violate when he offended a potential Egyptian customer?
 - How do successful global marketing companies such as Coca-Cola and McDonald's handle cross-cultural variations in taste preferences?

Two Iron Rules of International Business

Much of this book is about cultural differences, but here are two very important universals:

Rule #1: In international business, the visitor is expected to understand the local (host) culture.

The Chinese proverb *Ru xiang sui su* says the same thing with fewer words: "Enter village, follow customs." Is this just another way of saying, "When in Rome, do as the Romans do?" No, not so. You do not need to mimic or copy local behavior. Instead, just be yourself.

But, of course, "being yourself" includes being aware of local sensitivities and honoring local customs, habits and traditions.

Rule #1 is pretty obvious, but many international marketers seem to still be unaware of

Rule #2: In international business, the seller is expected to adapt to the buyer.

Why is Rule #2 so important? It's because all over the world today the customer is king (except in Japan, some global marketers say, where the customer is God).

This book will have served its purpose if it helps readers follow the two Iron Rules of global business.

Brief Introduction to the Patterns

Let's now preview the Patterns of Cross-Cultural Business Behavior.

Deal-Focused vs Relationship-Focused Business Behavior

This is the Great Divide between business cultures all over the world. Deal-focused (DF) people – for example, in the United States – tend to be fundamentally task-oriented, while relationship-focused folks – the Chinese, for instance – tend to be more people-oriented. Of course, relationships are important in business everywhere. It's a question of degree. But deal-focused people need to know, for example, that in RF cultures, as in India, you need to develop rapport *before* talking business.

Conflicts often arise when deal-focused marketers who are unaware of this fundamental difference try to do business with prospects in relationship-focused markets. Many RF people, like the Japanese, find DF types pushy, aggressive and offensively blunt. In return, DF types – for example, Canadians – sometimes consider their RF counterparts – Arabs, for instance – to be dilatory, vague, inscrutable, and even downright dishonest.

Direct (low-context) vs Indirect (high-context) Communication

People from deal-focused business cultures, such as Australians and New Zealanders, tend to use direct language, while people from relationship-focused cultures – South Asians, for example – often employ indirect, vague language, especially when what they have to say could cause offense or loss of face. This difference in communication tendencies continues to cause misunderstandings and headaches when RF business people (for instance, Indonesians) communicate with their DF counterparts (Danes, for example).

Informal (egalitarian) vs Formal (hierarchical) Business Behavior

Problems also occur when informal business travelers from relatively egalitarian cultures cross paths with more formal counterparts from hierarchical societies. Breezy informality can offend high-status people from hierarchical cultures, just as the status-consciousness

of formal people may offend the egalitarian sensibilities of informal folks.

Rigid-Time (monochronic) vs Fluid-Time (polychronic) Cultures

Some of the world's societies seem to worship the clock. Others are more relaxed about time and scheduling, focusing instead on interpersonal relations. Conflicts arise because some rigid-time visitors regard their fluid-time brothers and sisters as lazy, undisciplined and rude, while the latter may regard the former as arrogant martinetts enslaved by clocks and arbitrary deadlines.

Emotionally Expressive vs Emotionally Reserved Business Behavior

Emotionally expressive people communicate differently from their more reserved counterparts. This is true whether they are communicating verbally, paraverbally – through tone and volume of voice, for example – or nonverbally (with gestures). The resulting confusion can spoil our best efforts to market, sell, source, negotiate or manage people across cultures. The expressive/reserved divide creates a major communication gap, one largely unexplored in most books on international business.

Let us now move to Chapter Two, where we take a look at the Great Divide.

2. The Great Divide Between Business Cultures

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Relationship-Focus vs Deal-Focus

Whether marketing, selling, sourcing, negotiating or managing internationally, the differences between relationship-focused (RF) and deal-focused (DF) business behavior impact our success throughout the global marketplace.

The vast majority of the world's markets are relationship-oriented: the Arab world and most of Africa, Latin America, and the Asia/Pacific region. These are markets where people tend to avoid doing business with strangers. Instead they expect to get things done through networks of personal contacts.

RF people deal with family, friends and persons or groups well-known to them – people who can be trusted. Acculturated in low-trust societies, they tend to be uncomfortable doing business with strangers, especially foreigners. Because of this key cultural value, relationship-oriented firms typically want to know their prospective business partners well before talking business with them.

In contrast, the deal-focused approach is common in only a small part of the world. Strongly DF cultures are found primarily in the high-trust societies of northern Europe, North America, Australia and New Zealand where people are relatively open to doing business with strangers

This Great Divide between the world's cultures affects the way we conduct business from the beginning to the end of any commercial relationship. For starters, the way we make the first approach to potential customers or partners depends in good part upon whether they are in DF or RF cultures.

Making Initial Contact

Because DF people are relatively open to dealing with strangers, export sales people can normally make direct contact with potential distributors and end-users in these markets. Let's take the United States as an example. Perhaps because they are raised in a highly mobile immigrant society, Americans tend to be willing to discuss business possibilities even with people they don't know.

Box 2.1

DEAL-FOCUSED CULTURES

North America
Northern Europe, UK
Australia and New Zealand

MODERATELY DEAL-FOCUSED

South Africa
Latin Europe
Central and Eastern Europe
Chile, southern Brazil, northern Mexico
Hong Kong, Singapore

RELATIONSHIP-FOCUSED

The Arab World
Most of Africa, Latin America and Asia

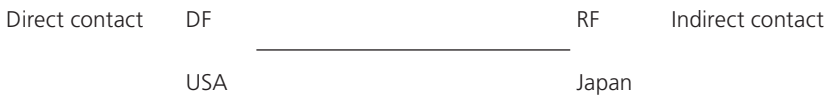
The success of business-to-business telemarketing illustrates this openness. Each year American companies buy billions of dollars worth of goods and services from total strangers. No wonder the USA is called the home of the “cold call”!

In contrast, telemarketing tends not to work so well in RF markets. For example, the term “telemarketing” in Japan refers to phoning *existing* customers or clients, something DF companies would call customer relations. Ringing up a stranger is not a very effective way to sell in Japan.

Of course, even in America, the larger and more complex the transaction, the more the buyer will want to know about the seller. But my point is, in DF cultures the marketer is often able to make initial contact with a prospective buyer without any previous relationship or connection. An introduction or referral is helpful but not essential.

This is the first of the several important differences between DF and RF business behavior.

Fig. 2.1 Making Initial Contact: DF vs RF Cultures



In sum, making business appointments in the U.S. is relatively quick and easy if you have the right product or service to offer, and if your market research is accurate, because North America is the quintessential DF market. But cold calls rarely work in Japan and other strongly RF business cultures.

Often the best way to contact RF business partners is at an international trade show. That's where buyers look for suppliers, exporters seek importers, and investors search for joint-venture partners. Business behavior at such exhibitions tends to be somewhat deal-focused because most of the attendees are there for the express purpose of making business contacts.

Another good way to meet potential partners in RF markets is to join an official trade mission. All over the world today governments, chambers of commerce and trade associations are promoting their country's exports by organizing guided visits to new markets. The organizer of the trade mission sets up appointments with interested parties and provides formal introductions to them. These official introductions help break the ice, smoothing the way to a business relationship.

When neither a relevant trade show nor a trade mission is scheduled for the next few months there is another proven way to make initial contact with distributor candidates in RF markets: arrange to be introduced by an intermediary.

The Indirect Approach

Remember, RF firms prefer not to do business with strangers. So you should arrange for the right person or organization to introduce you. A third-party introduction bridges the relationship gap between you and the person or company you want to talk to.

The ideal introducer is a high-status person or organization known to both parties. So if you happen to be good friends with a respected retired statesman who just happens to be well acquainted with one of your importer candidates, that's wonderful. Alas, such cases are rare in the real world of international trade.

An alternative is the commercial section of your country's embassy or consulate in the target market. Such officials are usually accorded high status in relationship-oriented cultures, and, of course, it is part of their job to promote exports.

Chambers of commerce, trade associations and banks are also potential introducers. Or perhaps one of your friends works for a company that has an active office in Shanghai, Seoul, Tokyo, or Riyadh. Maybe they can put in a good word for you. Freight forwarders, ocean and airfreight carriers and international law and accounting firms are other good sources of effective introductions.

Recognizing the importance of third-party introductions in their RF culture, the Japanese External Trade Organization (JETRO) is also willing to provide that service to reputable foreign companies. In fact, having a proper introduction in Japan is so critical that specialized consulting firms have come into existence there whose main function is to introduce *gaijin* to Japanese companies. Of course, using a consultant is likely to cost you more than other ways of obtaining an introduction.

Pulling *Guanxi*

In the RF world, people get things done through relatives, friends, contacts and connections – in other words, through relationships. It's "who you know" that counts. The Chinese call these networks of relationships *guanxi*, a word well-known throughout East and Southeast Asia.

Of course, knowing the right people helps get things done in deal-focused cultures as well. Again, it's a matter of degree. Even in an extremely deal-focused market such as the U.S., people still use "pull" or "clout" to get things done. Knowing the right person can be very helpful.

But although it is a difference of degree, it's still a key difference. In strongly RF markets, initiating a business relationship can often *only* be done if you know the right people, or if you can arrange to be introduced to them. Just try setting up a joint venture in China, for example, without having *guanxi* or "pulling *guanxi*" – using someone else's personal connections.

The bottom line is this: In relationship-oriented markets, plan to approach your potential customer or partner indirectly, whether via a trade show, a trade mission or a third-party introduction. The indirect approach is critical throughout the RF part of the world.

A case that took place in Singapore illustrates how essential contacts and introductions are to success in low-trust, relationship-oriented markets, where people are uncomfortable doing business with strangers.

Case 2.1: Exporting to Taiwan: *Guanxi* in Action

You are the new marketing manager of Glorious Paints, a Singapore manufacturer of marine paints. It is a fast-growing company headed by three young, Western-educated directors.

Last year the marketing director led Glorious Paints to its first overseas sale, selling a large quantity of paint to Australia and New Zealand. Director Tan achieved this success by first sending information to potential distributors along with cover letters requesting appointments and then meeting with each interested candidate firm at their offices. After that Mr. Tan negotiated a distribution agreement with the company he decided was best qualified to handle that market area. This process took about four months and sales volume is already exceeding expectations.

Following that success you were hired to expand exports to other Asian markets. The director called you into his office to discuss market research showing that Taiwan is a promising market with high demand and little local competition. So you were instructed to set up distribution there using the approach that had worked in Australia/New Zealand.

By searching databases you came up with the names and contact information for a number of Taiwanese importers, agents, representatives and wholesalers involved in the paint business. Next you sent off brochures and product information to these prospects, enclosing a cover letter requesting an appointment to discuss possible representation. You expected perhaps five or six of the companies to reply, as happened in Australia and New Zealand.

To everyone's surprise, six weeks went by without a single response. At a strategy session Mr. Tan pointed out that many Taiwanese are not comfortable corresponding in English, so you fired off a second mailing, this time in Chinese. But after another two months not a single prospective distributor has answered your letters.

Mr. Tan is upset with your lack of progress in this attractive market. He has called a meeting for this afternoon and expects you to come up with a solution. As you sit stirring your tea the questions revolve in your head like the spoon in the teacup. "What have I done wrong? This strategy worked fine with the Aussies. Why not with the Taiwanese? What do we do now?"

But What If You Are the Buyer?

Because exporters are responsible for actively seeking overseas customers, we might assume that contacts and connections are less important for international buyers. But buyers engaged in global sourcing quickly learn the limits to this assumption.

First of all, many international buyers proactively seek suppliers. Secondly, exporters need to have a certain level of trust in their prospective buyers. Even letters of credit are not absolute guarantees of payment, and insisting on cash in advance severely restricts one's market potential. For those reasons, in RF resource markets contacts and introductions can be as much a necessity for overseas purchasers as for sellers.

In fact, it was as an international buyer that the Great Divide between deal-focused and relationship-focused business cultures first became apparent to me. After a stint with a Chicago export management company I was recruited by Sears Roebuck and spent more than a quarter-century managing international buying offices around the world and coordinating the company's global sourcing

activities. A large part of my buying career involved developing competitive sources of supply in Latin America, Central and Eastern Europe, the Asia/Pacific region, the Middle East and Africa.

Early on I found out that in the countries I later recognized as relationship-focused it was smart to get introduced to potential suppliers before visiting them. And it was also wise to spend time building a relationship with management before touring the factory and asking all the questions a buyer needs to ask a prospective vendor.

That procedure was quite different from the procedure we followed in the countries I now refer to as deal-focused. In DF resource markets we could usually evaluate several factories a day. We would dash in, skip the coffee to save time, check out the equipment, get a feeling for how production was flowing, ask a series of rapid-fire questions, and then rush out to the next factory.

But I soon found that this task-focused approach did not work in relationship-oriented markets. There our hurry-up approach failed to elicit the accurate information we needed. In RF cultures we learned to evaluate only one or two manufacturers a day. We sipped a leisurely tea, coffee, or a cold drink with management.¹ We took our time and demonstrated our commitment to learning as much as we could about their company. That extra time always paid off in terms of better and more reliable information.

Later, when I again became involved in overseas sales and marketing, the significance of the Great Divide became even more obvious to me. But before we go any further, here's a good example of how contacts, connections or *guanxi* can be as important for international buyers as for international sales people.

Case 2.2: Dealing in Dhaka

Around 1989 we decided it was time to open a sourcing and quality control office in Bangladesh, a rapidly growing exporter of garments. As regional director for South and Southeast Asia based in Singapore, this task fell to me.

The first step was to arrange for legal registration. This was complicated because setting up an office in Bangladesh required the approval of several different ministries and government agencies.

.....
1 In the Balkans that often meant tipping back slivovitz at 06:30.

To handle the registration we talked to several local legal, accounting and consulting firms. They all said the approval process would take up to a year and quoted varying fees of up to \$10,000, hinting at “special expenses,” which, of course, meant bribes for the responsible officials. Unwilling to engage in bribery, we shelved the idea of a Dhaka office.

Then some weeks later one of my Hong Kong contacts happened to phone me to ask a favor. “An old friend of mine from Bangladesh is checking into the Mount Elizabeth Hospital near your office tomorrow for a major operation. The poor guy will be all alone in Singapore. Would you please stop by and give him my best wishes for a swift recovery?”

The old friend turned out to be a charming, well-read gentleman who had headed two different ministries in a previous Bangladesh government and was now a consultant in Dhaka. Chatting with him about many things that day, I also happened to mention our wish to develop long-term suppliers in his country. After the operation I dropped by again with a couple of novels to wish him well.

Two days later the ex-minister phoned from the hospital to thank me and to offer his help. “Your company’s plans will obviously help promote Bangladesh exports. If you wish, I will arrange to get your office registered within a month. Can you pay me \$900, the cost of my airfare to and from Singapore?” I quickly agreed, and three weeks later our Dhaka office was a legal entity – the fastest liaison-office registration ever recorded in Bangladesh.

How did he do it? Since he was personally acquainted with all the officials involved, the ex-minister was able to hand-carry our registration documents from one agency to another, have a chat and a cup of tea, and get those papers signed without delay – and without any “special expense.”

This incident shows that in relationship-oriented markets having the right contact can be as important for buyers as it is for sellers. In the next chapter we will look at good ways to build relationships in RF cultures.

★★★★

3. Deal First or Relationship First?

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In deal-focused markets you can usually get down to business after just a few minutes of small talk. And you can learn most of what you need to know about your potential DF counterpart in a matter of days rather than the weeks or months it may take in strongly RF cultures such as China and Saudi Arabia.

Deal-focused buyers and sellers socialize over drinks, meals and on the golf course. But they also build rapport at the bargaining table in the course of hammering out an agreement.

Of course, DF exporters and importers, such as those in the United States and northern Europe, will want to learn a lot more about each other before they are ready to sign a contract. But that can come later. Meanwhile the two sides are sizing each other up while they discuss price, payment terms, specifications, quality, quantity, delivery dates, and all the other issues involved in an international distribution agreement. They talk business right from the start and get to know each other as discussions proceed.

Getting to Know Each Other

It takes time and patience (and sometimes a cast-iron liver) to develop a strong relationship in RF markets such as Japan, South Korea and China. Getting inebriated together seems to speed up the rapport-building process in East Asia – but normally only for men. While there are exceptions, women usually don't fit in at these alcoholic male bonding rituals.

The best way to get to know your local counterpart varies from one RF culture to another. In much of the Arab world, steaming platters of rice and lamb take the place of booze. Brazilian and Mexican executives love to talk about their art, music, literature, sports and films. And then there is golf. In many parts of the world today a five iron closes the culture gap faster than a fifth of Scotch.

Yes, building trust and rapport with your customer is important

everywhere in the world, not only in relationship-oriented markets. The big difference is that with Arabs, Africans, Latin Americans and most Asians you need to develop that climate of trust *before* you start talking business. In RF markets, first you make a friend, then you make a deal.

You Need to Develop a Personal Relationship

In RF markets the relationship you build with your counterpart will have a strong personal component in addition to the company-to-company aspect. Your customer or partner will want to know that you personally, as well as your company, are committed to the success of the venture.

Because of this personal element it is important that continuity is maintained as far as possible throughout the relationship. So if you are promoted or transferred to another assignment, take care to personally introduce your replacement.

Bureaucracy in RF Markets

Negotiations usually take longer in RF than in DF cultures, for two reasons: first, it often takes time to arrange an indirect approach, then comes the lengthy process of building trust and developing a personal relationship.

When negotiating with government officials and public sector companies in relationship-focused markets, a third factor – bureaucratic inertia – often comes into play. Of course, officials everywhere tend to be cautious. They seem to find it safer to postpone a decision or to deny your request rather than to give their approval. Moreover, red tape often slows the process of getting things done. But in RF cultures suspicion of strangers, especially foreign strangers, often makes officials even more hesitant to move things along.

That's why it took Volkswagen over nine years to negotiate the opening of an automobile factory in Shanghai with the government of China. And why McDonald's required more than 12 years to

work out an agreement with the then-Soviet government for raising the first Golden Arches in Russia.

Visitors should load their briefcases with an extra-large supply of patience when preparing to do business with bureaucrats in many RF markets.

But once again, business cultures are changing. A U.S. manufacturer of very large excavators for open-pit coal mining has sold several giant machines in China over the last decade. It took three years of hard work to make the first sale, but only six months for the most recent one. The difference is due partly to the strong relationships the American firm has developed in this low-trust market and partly due to a gradual trend towards openness on the part of Chinese public-sector companies.

The Importance of Face-to-Face Contact

The telecommunications revolution permits rapid correspondence with business partners around the world today. Email, fax, telephone and Web conferencing enable us to stay in constant touch with our international counterparts.

But these technological marvels have not eliminated the need for face-to-face contact with our relationship-focused customers and partners. RF business people are very often uncomfortable discussing important issues in writing or over the phone. They expect to see their suppliers and partners in person more often than would be necessary in deal-focused markets.

This cultural difference has assumed increased importance in recent years. A number of our corporate clients and participants at Global Management workshops want to know if they can substitute phone conferences and video conferencing for personal meetings with customers and business partners.

I remind them that while modern technology can largely replace face-to-face-meetings with deal-focused counterparts, our RF customers may still expect to see us in person when difficult issues need to be discussed. A recent case involving U.S. exporters and a Malaysian importer-distributor is relevant here.

Case 3.1: Getting Paid in Malaysia

During the period from autumn 1997 to autumn 1998 the value of the Malaysian ringgit in U.S. dollars declined by about 70%. For Malaysian importers, this sharp devaluation meant the cost of goods and services invoiced in U.S. dollars had more than tripled within the space of a year.

The ringgit devaluation caused serious problems for Rah-Tel, a large Kuala Lumpur-based importer and distributor of telecommunications equipment. Back in 1996 the owner and managing director, Mr. Abdul Rahim bin Mohsin, had negotiated open-account payment terms with two American equipment exporters.

By November 1997 Rah-Tel owed about US\$130,000 to Grober Exports, an export management company, and a somewhat larger amount to King Tools, a marketer of equipment and services.

Mr. Rahim explained his difficult financial situation to both creditors in a series of faxes, emails and phone calls. He pointed out that while the US dollar value of his purchases had increased by three times, his local Malaysian customers were not prepared to pay him more than the ringgit amount they had previously negotiated. So Rahim requested a delay in payments, hoping the ringgit would recover its former value soon.

King Tools replied by email in December 1997, granting a 90-day extension but requiring Rah-Tel pay in full after that.

Grober Exports responded at first with phone calls and emails. Then Grober executives made two personal visits to Kuala Lumpur, one in November 1997 and another in May 1998. Within days of each of these visits Rah-Tel wired Grober's U.S. bank about 35% of the amount due, thus accounting for 70% of the debt. Rahim then paid the remaining balance in September 1998, so Grober's debt recovery, albeit with a long delay, was 100%.

As of December 1998 King Tools had received none of the money owed them by Rah-Tel. At that point they decided to write off the entire amount as an uncollectable debt.

The Role of the Contract

Deal-oriented business people rely primarily on written agreements to prevent misunderstandings and solve problems. U.S. business

people in particular tend to take an impersonal, legalistic, contract-based approach when disagreements and disputes arise.²

Some U.S. companies bring a lengthy draft contract and a lawyer to the negotiating table with them. They then proceed to discuss the proposed agreement clause by clause, consulting the legal adviser every time a question arises. This approach makes sense in America, the world's most litigious society. But it can be counter-productive in many RF cultures where business people rely more on personal relationships rather than on lawyers and detailed contracts. In strongly RF markets a better approach is to keep the lawyers in the background until the later stages of the discussions, conferring with them during breaks.

Contrasting perceptions of the contract also cause misunderstandings between RF and DF cultures. For example, a Korean partner might expect to renegotiate the terms of a contract as conditions change, even if the agreement had just been signed in New York a month ago. The Koreans would expect their close relationship with their U.S. counterpart to facilitate such a renegotiation.

The New Yorkers, on the other hand, are likely to misinterpret an early request for changing the contract terms as a sign that their new Korean partners are tricky, fickle and unreliable. RF cultures depend primarily on relationships to prevent difficulties and solve problems, while deal-focused cultures depend on the written agreement to fulfill the same functions.

As more companies from opposite sides of the Great Divide gain experience from doing business globally, we can hope these misunderstandings will diminish. In the meantime, however, business people need to be alert to cross-cultural differences that can wreck even the most promising international business deal.

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 2 An American friend of mine says, "If you took all 862,496 lawyers in our country and laid them end to end ... Hey, come to think of it, wouldn't that be a *super* idea!"

4. Communicating Across The Great Divide

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Direct vs Indirect Language

Relationship-focused (RF) and deal-focused (DF) business cultures can differ widely in how they communicate. Deal-oriented business people tend to value direct, straightforward language while their relationship-focused counterparts often favor a more indirect, roundabout style.

In my experience this communication gap is the greatest single cause of misunderstandings between RF and DF negotiators around the world. Confusion arises because people from the two cultures expect quite different things from the communication process.

Harmony vs Clarity

It is partly a question of priorities. When communicating with others the priority for DF business people is to be clearly understood. They usually say what they mean and mean what they say. German and Dutch negotiators, for example, are known for their frank, even blunt language.

RF business people, in contrast, give top priority to maintaining harmony and promoting smooth interpersonal relations. Because preserving harmony within the group is so important, RF people tend to carefully watch what they say to avoid embarrassing or offending other people.

Fig. 4.1 The Cross-Cultural Communication Gap

Direct language DF _____ RF Indirect language

Over the last 35 years I have noticed that the nearer the RF-end of the continuum a culture is located, the more vague and indirect people are with their language. On the other hand, the nearer they are to the DF end, the more frank and direct people tend to be.³

Things can get confusing when the two parties in a negotiation come from opposite poles, for instance when North Americans and Japanese interact. To use a personal example, I had been negotiating with Japanese companies off and on since 1971 and can't recall ever hearing the word "no."

Many Japanese, Chinese and Southeast Asian negotiators seem to treat "no" as a four-letter word. To avoid insulting you they may instead murmur "That will be difficult" or "We will have to give that further study." Popular variations are "Maybe" and "That might be inconvenient."

Well-traveled Japanese are aware of their cultural preference for avoiding that naughty word. That is why Japanese politician Shin-taro Ishihara titled his famous 1989 book, *The Japan That Can Say No*.⁴

Case 4.1 illustrates the contrasting approaches to business communication in RF and DF cultures.

Case 4.1: Negotiating in China: Bilingual Labels

Canada's largest importer of mobile phones and accessories, Nor-Phone Ltd. of Toronto, decided to start sourcing accessories in China. From an industry contact in Chicago Vice President Pete Martin learned about Ever Sharp, a large manufacturer in Shenzhen that specialized in supplying the U.S. market.

After months of email correspondence, Pete flew to Guangzhou to finalize the purchase agreement for 10,000 accessory sets. Discussions with Ever Sharp proceeded amiably. Pete and the Chinese team needed a week of meetings to agree on specs, packing, delivery, price, payment terms and the other details of a large transaction.

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- 3 Here it's useful to note that while Germans and German-Swiss are in some respects slightly less deal-focused than Americans, they tend to be more direct in their verbal communication behavior.
 - 4 Mind you, one of our four sons speaks the language fluently and worked for a large Japanese company in Tokyo. While there he dated Japanese young ladies and although he won't admit it, I think he may have heard "no" once or twice!

Exhausted from these lengthy negotiations, Pete was really looking forward to the signing ceremony. At this point, however, Pete learned that Ever Sharp had not yet exported to Europe or Canada, and thus might not be familiar with Canada's bilingual requirements. So he explained that all goods sold in Canada must have all product labels printed in both French and English.

This news caused the Chinese concern. They lacked French-language expertise and could only work with Chinese and English, but did not want to admit this to the buyer. So Managing Director Wang replied with a smile, "Mr. Martin, I am afraid that supplying labels in French and English will be a bit difficult. This question will require further study."

Pete Martin politely repeated that bilingual French/English labels were required by Canadian import regulations. "Please understand that we really have no choice on this – it's the law."

Mr. Wang replied with a smile: "Mr. Martin, we will give your request serious consideration. It will be quite difficult. We will do our best to solve the problem." Relieved to have settled this final detail, Pete signed the contract and said his formal goodbyes to Mr. Wang and his team.

Three months later Pete got a call from the quality-control chief at Nor-Phone's warehouse. "Mr. Martin, we have a problem. You know those 10,000 sets that just came in from China? Well, they've got bilingual labels all right – but they are in English and Chinese!"

Pete Martin was stunned. Obviously Nor-Phone's local quality-control service in Shenzhen had missed this very important detail in their pre-shipment inspection. But still, Ever Sharp had agreed to supply the sets with labels in French and English, right?

How would you explain to Pete why that did not happen?

When I used this case in a Global Management seminar for German and American managers, one German participant reacted to Mr. Wang's indirect response by saying, "But that was a lie!" This was not the first time I've heard such a comment from deal-focused business people accustomed to straightforward language.

Nonverbal Negatives

Many RF people also have subtle ways of saying no with body language. Some Arabs lift their eyebrows to politely refuse a request – the nonverbal equivalent of the American slang expression, “No way, José!”

In many cultures clicking the tongue with a “tsk, tsk” sound indicates a negative response.

Japanese and Thais often smile and change the subject or simply say nothing at all. I have found that extended silence during a meeting with East Asian negotiators often means, “Forget it, Charley!”

The Myth of the “Inscrutable Oriental”

This wide RF-DF communication gap has given rise to the myth of the “inscrutable Oriental.”

But verbal subtlety and indirectness is only part of the story. To DF types, East and Southeast Asians seem inscrutable also because they hide their emotions, especially negative emotions. In these cultures showing impatience, irritation, frustration or anger disrupts harmony. It is considered rude and offensive. So people there tend to mask negative emotion by remaining expressionless or by putting a smile on their face.

Thais for example seem to smile all the time. They smile when they are happy, they smile when they are amused, they smile when they are nervous – they smile even when they are absolutely furious. Thai people smile because openly displaying anger would cause everyone concerned to lose face.

Communication and “Face”

In the highly relationship-focused cultures of East and Southeast Asia, both sides lose face when a negotiator on one side of the bargaining table loses his temper. The person who displays anger loses face because he has acted childishly. And by showing anger he or she has also caused the other party to lose face. It doesn’t take much of that to bring a promising negotiation to a lose-lose impasse.

As an unfortunate example, let's look at what happened recently during a long, drawn-out negotiation in Vietnam. Executives from one of northern Europe's largest breweries had been haggling for months with a local public sector company over the details of an agreement to build a joint-venture brewery in central Vietnam.

Towards the end of a particularly frustrating day the leader of the European team could simply no longer mask his irritation. First his face got red. Trying unsuccessfully to hide his impatience, the visitor clenched his fist so hard the wooden pencil he was holding suddenly snapped in half.

At that sound the room instantly became silent. A moment later the entire Vietnamese team rose as one man and stalked out of the conference room. The next day a three-line fax arrived at the headquarters of the European brewery informing them that the Vietnamese would never again sit down at the same table with "such a rude, arrogant person" as the head of the European team.

What to do now? Months of painstaking discussions had already been invested in this complex project. To save the deal the Europeans decided to send the offending manager home and replace him with a stoic type famous for his poker face. Some months later the agreement was duly signed, and visitors to central Vietnam can now imbibe lager and pilsner to their heart's content.

When a Caucasian's face turns red it is an involuntary response one can't control. But you can take a break before something snaps.

While Westerners associate the concept of "face" primarily with East Asian and Southeast Asian societies, it is in fact a cultural universal. Southern Europeans may call it *rispetto* or *onore*, Anglo-Saxons refer to it as self-respect. Nowhere in the world do human beings enjoy rude and offensive behavior. We tend to feel uncomfortable when others are angry with us or when we are embarrassed, mocked or singled out for criticism.

People in relationship-focused cultures are often especially sensitive to face, perhaps because RF cultures are group-oriented. One's self-image and self-respect depend very much on how one is viewed by others. That is why business visitors need to be especially conscious of how their verbal and nonverbal messages may be interpreted in RF cultures.

Miscommunication Across Cultures

The strong East Asian concern for covering negative emotion can be confusing to outsiders from deal-focused cultures. When we moved from Germany to Singapore in 1988, my wife and I decided to try learning Mandarin on weekends. To tutor us we hired Stefanie, a pleasant young woman who had recently arrived from Taiwan.

My lessons were interrupted late that year when my mother passed away and I had to fly back to Wisconsin to attend the funeral. Unfortunately, I had barely returned to Singapore when my brother phoned again to break the sad news that our father had now passed away. As you might imagine, this was a very difficult time for me.

It happened to be a Saturday when I got back from this second funeral, and Stefanie dropped by to enquire why I had missed so many lessons. Suffering from grief compounded by jet lag and exhaustion, I blurted out that both of my parents had just died.

A stricken look flashed across the young woman's face for just a fraction of a second, and she gasped. Then Stefanie suddenly laughed out loud, right in my face, and proceeded to giggle for several seconds thereafter.

Now intellectually I was quite aware that people from some Asian cultures hide nervousness, embarrassment or severe stress with a laugh. I also knew I should have broken my sad news much more gently. After all, Stefanie was a Chinese person raised in the Confucian way. She revered her parents. The sudden realization that she could perhaps lose both of them almost at the same time must have come as a terrible shock.

Nevertheless my immediate reaction to her laugh was visceral. I felt as though I had just been hit hard in the stomach. Even though I understood rationally what had happened, I had difficulty relating to Stefanie after that incident. She stopped coming and we had to find a new Mandarin tutor.

"Low-Context" and "High-Context" Communication

We have seen that RF business people tend to use indirect language

to avoid conflict and confrontation. The polite communication of Asians, Arabs, Africans and Latins helps maintain harmony. The meaning of what they say at the bargaining table is often found more in the context surrounding the words rather than in the words themselves. U.S. anthropologist Edward T. Hall, guru of cross-cultural communication, coined the useful term “high-context” for these cultures because you need to know the context surrounding the words in order to understand what is meant.

In contrast, when northern Europeans, North Americans, Australians and New Zealanders speak, the meaning is usually explicit. That is, the meaning is contained in the words themselves. A listener is able to understand what they are saying at a business meeting without referring much to the context. Hall called these “low-context” cultures.

For a Chinese executive trying to do business in Amsterdam this difference in communication styles quickly becomes evident, as it does for a Swede or German trying to close a deal in Beijing. That’s because China lies at the high-context/RF end of the culture continuum, while Sweden and Germany are perched at the low-context/DF end.

Less obvious are the differences between cultures that are located fairly close together on the continuum. For example, let’s look at Greater China: the constellation of the PRC, Hong Kong (culturally distinct from the rest of China) and Taiwan. We will add Singapore as well because although the population of the Lion City is only about 77% Chinese, the business culture is strongly Chinese-oriented.

Fig. 4.2 Greater China

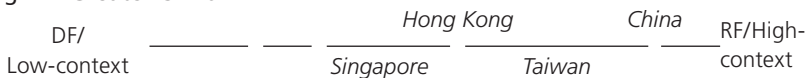


Figure 4.2 shows that while China – the mother culture – is located at the RF and high-context end of the continuum, Taiwan, Hong Kong and Singapore are spotted at varying distances away. Business people doing business in these three outposts of Chinese culture notice that while they are definitely more RF and indirect than say

Australia, they are also more deal-focused and direct than most of their counterparts in the PRC.

Old Asia hands know that Hong Kong Chinese and Singaporeans are somewhat more open to direct contact than PRC Chinese, require a shorter time for building rapport and tend to use more direct language.

Equally interesting, research by a Danish scholar reveals similarly fine gradations of cross-cultural business behavior among markets at the deal-focused and low-context end of the spectrum. Professor Malene Djursaa of Copenhagen Business School studied the interaction of over 50 Danish, German and British businessmen, and published her findings in the June 1994 issue of the *European Management Journal*.

Although all three of these European cultures are low-context, they also display significant differences – differences that can cause problems for people doing business in the three markets. While the British are clearly more low-context and deal-focused than Arabs, Mexicans or Koreans, at the same time they are also somewhat more high-context and RF than their Danish and (especially) German counterparts.



In lengthy interviews with business people from these three related cultures, Professor Djursaa learned, for example, that Germans find personal relationships to be more important in the UK than back home. The interviews also reveal that the British employ more roundabout, indirect language than the Danes. Further, the Danes reported that they get down to business more quickly than the British, but less quickly than the Germans.

The research of Hall, Djursaa and other scholars confirms what international business people have learned from practical experience: differences in cross-cultural communication create invisible barriers to international trade.

Variations in verbal and nonverbal behavior can cause culture clashes. But a skilled interpreter can often smooth over verbal prob-

lems. That's what is going on when an interpreter takes a long time to render in Japanese or Chinese what a DF speaker just said in a couple of short sentences. Part of the translator's task is to cloak blunt statements with polite circumlocution.

Another feature of indirect, high-context communication in some traditional Asian cultures is extreme reluctance to report bad news. A case from Indonesia is pertinent here.

Case 4.2: The Reluctant Messenger

Anita is the sourcing manager of Blue Genes, a major Dutch importer/wholesaler of denim garments. She is worried about late delivery of 6000 fancy denim jackets ordered from Bali Jeans, her supplier in Indonesia. The contract shipping date from the Jakarta airport was last week, and she still has no word from them.

Last year Bali shipped two small orders, both of them within two weeks or so of the contract delivery date and without major garment defects. Based on that positive experience, Anita ordered 500 dozen jackets this season at a good price.

On-time delivery was critical this time because her company's major retail customers would cancel if she shipped late, leaving Blue Genes to "eat" the goods. Since these are big-ticket fashion jackets, the firm would take a heavy financial loss in addition to alienating regular customers.

Bali Jeans answered Anita's last two fax inquiries promptly, reporting both times that production was "on schedule." But now, the fact is they are late.

As Anita sits steaming, her assistant pops in with a short fax from Mr. Suboto, marketing manager of Bali Jeans: "We regret to inform you that due to late delivery of piece goods we are running slightly behind on production. Expect to deliver within two weeks. Please immediately extend L/C validity by 45 days. Signed, Suboto."

Groaning out loud, Anita asks herself "How could this happen? Why didn't Suboto inform us right away when he found out that the fabric was late? Obviously, if they are asking for an L/C extension of 45 days they will not deliver 'within two weeks' as Suboto now claims."

Had she known about this delay two weeks ago Anita could have at least partially satisfied Blue Genes' most important retail customers by shipping them some quantities of a similar style from China. But being unaware of the problem in Jakarta, her company sold all those Chinese jackets just yesterday to a German retail group. Now Blue Genes is completely out of stock ... and out of luck.

What cultural factor(s) explain Mr. Suboto's failure to inform Anita earlier about this delay?

It is not that Bali Jeans management doesn't care about your business. Like some other Southeast Asians, Mr. Suboto tends to postpone reporting bad news. Perhaps he was hoping that at the last moment a miracle would happen to solve the problem...

"Telling It Like It Is" vs "Saving Face"

Even when indirect RF and direct DF people are both speaking the same language, English, for example, they are really speaking different languages. A Dutch or German negotiator will choose his words carefully so that his counterparts will understand exactly what he is saying. He wants no ambiguity, no beating around the bush.

Meanwhile his Arab, Japanese or Indonesian counterparts are choosing their words even more carefully, but for a quite different reason. RF negotiators want to make sure that no one at the meeting will be offended. They want no rude directness, no crude bluntness, no loss of face.

I personally come from a deal-oriented background. When an Australian, German or Dane describes me as a direct, straightforward person, it is a compliment. That's because in DF cultures directness and frankness are equated with honesty and sincerity.

But those same adjectives coming from a Japanese or Chinese person would probably be meant as criticism. Why? It's because in RF/high-context cultures, directness and frankness are equated with immaturity and naïveté – even arrogance. In strongly RF cultures only children and childish adults make a practice of saying exactly what they mean. They just don't know any better!

People are often surprised to encounter a similar direct-indirect communication gap between northern Europeans and their counterparts from Central and Eastern Europe. For example, when Danes managing subsidiaries in Hungary and Poland attend our workshops they complain, "Those guys always say 'Yes, we can do it on time' and then it turns out they can't deliver on time after all. Why is that?"

When I ask that question of my Polish and Hungarian friends they typically smile and explain, "Well, I suppose we are optimists.

Based on experience we are sure we'll find a way to solve the problem and meet the deadline. But unfortunately sometimes..."

In the next chapter we move on to the gap between formal, hierarchical cultures and informal, egalitarian cultures.

5. Hierarchical (Formal) and Egalitarian (Informal) Business Cultures

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Status, Power and Respect

Misunderstandings happen when negotiators from egalitarian cultures meet counterparts from hierarchical cultures. In this chapter we will look at examples of such failures and consider ways to avoid problems.

Formal cultures tend to be organized in hierarchies reflecting major differences in status and power while informal cultures value egalitarian attitudes and smaller differences in status and power.

This difference matters when we do business because contrasting values can cause conflict at the conference table. Business people from formal, hierarchical cultures may be offended by the easy familiarity of counterparts from informal, egalitarian societies. On the other hand, those from informal cultures may see their formal counterparts as stuffy, distant, pompous, or arrogant.

Such misunderstandings can be avoided if both sides are aware that differing business behaviors are the result of differing cultural values rather than personal quirks.

Culture Clash in Germany

I learned about the informality/formality divide in the early 1960s on the first of our eight expatriate assignments. My employer, a Chicago export management company, sent us to Frankfurt am Main where my job was to expand the firm's sales in Europe.

My first appointment was with our largest account, an importer/distributor of hand-tools located in Stuttgart. I spent that day in meetings with the boss of the company, Doctor Wilhelm Müller, and found myself saying "Herr Dr. Müller" and "Dr. Müller" the

whole day. This formality was a bit oppressive for a young man from the United States, one of the world's more informal cultures.

I spent the next two years addressing this distinguished gentleman in the proper German way. And when his wife joined us once for lunch I called her "Frau Doktor." Why? Because those were the proper forms of address in Germany, then a more formal society than it is today. (Remember: cultures change.) This anecdote actually illustrates both Iron Laws of International Business: The visitor is expected to follow local customs and the seller adapts to the buyer.

Of course, I soon learned that most of Europe follows the same rules of formal address. Your French contact is likely to remain Monsieur Dupont, not René, for a long time.

By way of contrast, when I met a new client for the first time not long ago in Australia, the conversation started with a hearty "G'day mate! Let's have a beer!" Now that, dear reader, is an example of an informal culture!

Formality is about expectations and assumptions regarding status, hierarchies, power and respect. Whereas people in informal cultures tend to value status equality, people from formal cultures value hierarchies and status differences. Ignorance of this distinction can cause serious problems across the international bargaining table. A participant in one of our early export marketing seminars in Denmark related an incident which clearly illustrates this point.

Case 5.1: How to Insult a Mexican Customer

José García López, a Mexican importer, had been negotiating with a Danish manufacturing company for several months when he decided to visit Copenhagen to finalize a purchase contract. He insisted on coming over as soon as possible.

To accommodate his potential customer, Flemming, the 40 year-old export manager, welcomed Sr. García to Denmark for meetings on Thursday and Friday. Flemming advised the Mexican that he had a flight to Tokyo scheduled for early that Saturday, but Sr. García replied that that was no problem since he planned to depart for Mexico about the same time on Saturday.

The business meetings went smoothly, and on Friday Sr. García confided that he looked forward to signing the contract after his return to Mexico. That evening the Danes invited Sr. García out for an evening on the town. Flemming and his 21 year-old assistant Margrethe hosted an excellent dinner and then took

their Mexican prospect on a tour of Copenhagen nightspots. Around midnight Flemming glanced at his watch.

“Sr. Garcia, as I mentioned to you when we discussed your visit, I have a very early flight tomorrow to Tokyo. So you’ll forgive me if I leave you now. Margrethe will make sure you get back to your hotel all right and then drive you to the airport tomorrow morning. I wish you a smooth flight back home!”

Next morning in the car on the way to the airport José Garcia was uncharacteristically silent. Then he turned to the young assistant: “Margrethe, would you please tell your boss I have decided not to sign that contract after all. It is not your fault of course. If you think about what happened last evening I believe you will understand why I no longer wish to do business with your company.”

To repeat, formality has to do with relative status, organizational hierarchies, and how to show respect to persons of high status. That is why international marketers always should know whether they are dealing with hierarchical or egalitarian cultures. Box 5.1 shows “Who’s Who” in this world of egalitarian and hierarchical cultures.

Box 5.1

INFORMAL, EGALITARIAN CULTURES

Nordic countries
Australia/New Zealand
USA, Canada
The Netherlands

FORMAL, HIERARCHICAL CULTURES

Rest of Europe and Asia
Mediterranean Region and the Arab World
Latin America

In hierarchical cultures (most of the world) status differences are larger and more important than in egalitarian cultures. Showing respect is important, and formality in addressing people is simply one common way of showing respect.

Showing Respect to the Customer

According respect to Dr. Wilhelm Müller was important also because he was my customer, and all over the world these days the customer is king.⁵

Hierarchies and Status in Asia

People from egalitarian societies are often unaware of the importance of status distinctions in hierarchical cultures. During the five years we lived in Singapore we were friends with an American couple who invited us to dinner several times. At the first party there were a number of Singaporean couples present, but none of the locals accepted subsequent invitations.

The American couple had no idea why their Singaporean friends no longer came to dinner, but my wife and I knew. You see, these particular Yanks happened to be strongly egalitarian. They liked to have their Filipina maid sit at the dinner table with them. But like most Asians, Singaporeans respect authority, honor social hierarchies, and value clear status differences. Feeling uncomfortable sitting at the same table with a maid, they said nothing but simply stayed away thereafter.

Being the world's most egalitarian people, Nordic people sometimes have a special problem doing business in strongly hierarchical cultures. Recently a Scandinavian associate of mine visited good friends of ours in Bangkok. Svend politely shook hands with the host and hostess, and then with their Thai maid as well. Much to Svend's surprise the maid immediately burst into tears, ran upstairs and spent the whole evening sobbing in her room.

Our Bangkok friends are a Thai-American couple. They gently explained to Svend that as a *farang* – a Caucasian foreigner – he automatically enjoys high status, whereas a domestic worker is of low status. In Thailand people that far apart in social status do not shake hands. So when Svend grabbed her hand she thought he was making fun of her, and was absolutely mortified.

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 5 Except in Japan, where the customer is GOD. We can all learn something from the way the Japanese treat their customers!

The sharp divide between egalitarian and hierarchical societies can act as an invisible barrier to international business. Export marketers from informal cultures do not always know how to show respect to customers from formal cultures, who may be offended by perceived slights.

The bottom line in today's global marketplace is that ignorance of cultural differences is not an acceptable excuse for failure. Case 5.2 shows how one can lose business due to ignorance of cultural differences.

Case 5.2: How to Insult an Egyptian Customer

A major Canadian high-tech manufacturing firm was deep in negotiations with an Egyptian public sector company. Vice President Paul White was pleased to learn that the head of the Cairo-based company was leading a delegation to Toronto with a view to concluding negotiations.

White was even more pleased when upon his arrival Dr. Mahmud Ahmed hinted strongly that discussions were moving along nicely and that a favorable outcome was likely. After all, this contract represented the largest and most profitable deal White's company had worked on to date.

Quite aware of the importance of relationship-building, Paul invited the Egyptian delegation to an elegant reception and buffet dinner at the prestigious Grand Hotel, with Dr. Ahmed as the guest of honor.

Dr. Ahmed was his usual charming, affable self when he arrived at the party and warmly shook hands with Paul. After a few minutes of chit-chat the Canadian led his chief guest to the drinks table, stocked with things the Egyptian was known to like. "Well now, what can I offer you to drink, Dr. Ahmed?"

"Oh, nothing for me right now," replied the Egyptian with a smile. The two men conversed pleasantly about sports, music and other mutual interests for a while and then White guided his guest to the buffet table loaded with delicacies Dr. Ahmed preferred. Paul was surprised when Dr. Ahmed again declined politely, saying that he wasn't hungry.

Puzzled by his guest's lack of interest in food and drink, Paul wondered what the problem might be. Then the Canadian host was drawn into conversation with some of the other guests and did not notice when Dr. Ahmed left the party early.

At the negotiating session next day Dr. Ahmed was cool and distant. No progress at all was made towards an agreement. That afternoon Paul learned that the head of the Egyptian company was complaining vociferously to his colleagues

about the “rude and offensive treatment” he had undergone at the dinner party. “I certainly do not intend to do business with such discourteous people,” he was heard to say.

Paul White had no clue what had happened to upset his Egyptian guest. Was this a negotiating ploy – a pressure tactic? Or had his team really offended Dr. Ahmed somehow?

The two preceding cases were real-world examples of how *not* to do business in formal cultures. Flemming and Paul White both failed to follow Iron Rule #2: they did not adapt to the expectations and assumptions of their customers.

Paul White apparently followed a different rule, a popular one that says “Be yourself.” In his culture it is rude to insist or “push” a guest to eat or drink; the guest may not be feeling well, for example. But customers from hierarchical cultures tend to expect their hosts to show respect and to spend time building a relationship. Sellers from egalitarian cultures need to do their homework. With a bit of homework Flemming would have understood that his Mexican customer expected him to stay and party – all night, perhaps. And with some research Paul would have learned that older, traditional gentlemen from the Middle East often expect to be invited to eat or drink three times, not once, before accepting the offer. Proper behavior in Denmark or Canada can be rude behavior in Mexico or Canada.

Now let’s look at an example of how to do it right.

Showing Respect in Asia

An American consultant with a decade of business experience in South Asia arranged for his Chicago client to meet with the Minister of Textiles in Bangladesh. The Chicago firm had asked for a favorable decision on a complex issue involving garment quota allocations to the American market, but was not optimistic about the outcome.

A U.S. competitor who had made a similar request the previous month had seen their application rejected by mid-level bureaucrats in the ministry.

It was a sweltering day in Dhaka and the minister's shiny new window air conditioner was not in operation. This caused the visitors considerable discomfort, because at the consultant's insistence they were dressed in dark wool suits with starched shirts and ties. The two Westerners sat steaming and dripping sweat while the minister chatted away amiably, cool and comfortable in airy white muslin.

After over an hour of apparently aimless conversation, the minister stood up and with a broad smile informed the petitioners that he had decided to grant their request.

The consultant learned the next day from a government contact that the minister had deliberately not turned on his room air conditioner for the meeting.

Nonverbal Ways of Showing Respect

When meeting with government officials in hierarchical countries it is important to show proper deference. This advice is particularly important for people from countries with a history of colonial domination. Bureaucrats throughout South and Southeast Asia can be offended by overly casual behavior on the part of Westerners. Informality may be misinterpreted as disrespect. Wearing a suit and tie to meetings during the hot season sends a positive signal of respect, and keeping one's jacket on in a non-air conditioned office signals even greater respect.

Australian, Canadian, Nordic and American managers attending our seminars sometimes complain that they are at a competitive disadvantage globally because businessmen from hierarchical cultures already know all about formality, status differences and how to show respect, while those from egalitarian societies may not.

These managers have a valid point. A key rule of international business protocol is that one should always err on the side of formality when in an unfamiliar situation. That may mean, for instance,

addressing people by their surname and title rather than first name, dressing more formally, and trying to follow local etiquette when shaking hands and exchanging business cards and gifts.

Status Barriers

However, four classes of international business people have to operate at an even greater disadvantage when trying to sell goods to buyers from strongly hierarchical cultures:

- People on the lower rungs of the corporate ladder in their own company,
- Young people of either sex,
- Women,
- Men and women of any age involved in international sales.

The reason is that formal cultures tend to ascribe status according to one's age, gender, organizational rank, and often whether one is the buyer or the seller: In many parts of Asia the buyer has higher status than the seller. Therefore a young export saleswoman potentially suffers under a quadruple handicap when operating in formal, hierarchical cultures such as Japan, South Korea and the Arab world.

In certain hierarchically organized cultures women rarely gain senior positions in commercial organizations. Especially in South Korea, Japan and Saudi Arabia, men are traditionally accorded higher status in the business world than females. The top positions in most companies are held by men who are not used to dealing with women in business on the basis of equality.

In contrast, many women in more egalitarian cultures around the world are successful entrepreneurs as well as executives in major corporations. These two opposing views of the role of women in business can lead to a culture clash when females try to do business in traditional, hierarchical societies. Despite the potential problems, however, some enterprising women refuse to be shut out of promising markets by what they regard as male chauvinist attitudes.

That makes our next case quite interesting. Case 5.3 is about a young woman who succeeded as an export marketer in all three of

these tough markets in spite of her four-fold handicap. (As with all the other cases in this book, this incident actually took place.)

Case 5.3: Women in International Business

A bright young Danish woman we'll call Tonia is a case in point. Tonia was a tall, striking blonde of about 20 employed by a Singaporean jewelry manufacturer. She was also studying international marketing part-time at the Export Institute of Singapore. Having heard about the gender barrier, Tonia asked one of her EIS lecturers: "Which major markets in the world would you say are the most difficult for a woman to do business in?"

"Saudi Arabia, Japan and South Korea," replied the lecturer without hesitation.

The next day Tonia asked for a meeting with her boss, the marketing manager of the jewelry company. She volunteered to undertake a sales mission during the semester break to those very markets, and after some careful preparation left on a two-week trip to Tokyo, Seoul and Riyadh. The next semester Tonia proudly reported to the class that she had been able to sell her company's fine jewelry successfully in not just one, but all three of those particularly tough markets. Not only that, she had even been offered a job as marketing manager by one of her new customers!

Tonia took a number of steps which raised her status and allowed her to succeed. She got her male boss to introduce her to prospects by email and phone, she knew her job and she learned how to show respect to the customers. These are steps that other young women can take as well.

The Gender Barrier

Although the gender barrier unquestionably exists in hierarchical cultures, a visitor like Tonia who is an obvious foreigner may be seen as an exception. Japanese women in a business setting are often assumed to be secretaries and treated accordingly by the overwhelmingly male management. For that reason, most Japanese women lack the status necessary to interact effectively with corporate decision-makers.

But on the other hand, those same male executives may see a for-

eign female as a *gaijin* (foreigner) first and only second as a woman. Knowing that foreign women sometimes hold managerial positions, many Japanese and other Asian businessmen are willing to give them a chance.

As mentioned, in Asian business cultures the buyer generally enjoys higher status than the seller. Therefore purchasing executives who are women should in theory not have the same problems with the gender barrier in the region. But as we will see in the next case, South Korean cultural expectations regarding gender roles did cause a major problem for a visiting female purchasing manager. Did Frau Braun take the same steps that made things easier for Tonia?

Case 5.4: Sourcing in Seoul

Waldtraut Braun, a 32 year-old procurement manager for a world-brand German company, was on her first visit to Seoul. Accompanied by her assistant Paul Schmidt, she was there to negotiate a major purchase of industrial components. She was the first woman from her company to visit this vendor, but since the Korean manufacturer had been a supplier to the German firm for several years Frau Braun expected the discussions to proceed without particular difficulty.

However, that is not the way things worked out. Throughout the meeting the Korean male negotiators ignored her completely, addressing all questions and comments to Paul Schmidt. Furthermore, when Schmidt excused himself for a comfort break the Korean negotiators fell silent and acted as though Frau Braun was not there at all.

Frustrated by the way she had been treated, Frau Braun returned to her Singapore regional head office determined never again to negotiate with Koreans. Shortly thereafter this very successful purchasing manager arranged for a transfer to another division of her global company.

At our Global Management negotiating workshops I often ask participants what Frau Braun, Paul Schmidt and their company could have done differently to avoid the problem these German buyers encountered in Seoul.