NEGOTIATION STRATEGY IN JOINT VENTURES

By

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All assessments of future long-term prospects (worldwide, regional, or national) indicate an irreversible process of interdependence among nations of the world; interdependence among nations of a region; and interdependence among organizations and institutions within a country. The on-going energy situation, as well as the world-wide scarcity of raw materials, illustrate the critical phenomenon of interdependence that is now shaping up at a faster clip and which will profoundly influence the shape of future world affairs.

Joint ventures (that is, new companies with local and foreign financial and other inputs) among local companies and their foreign counterparts have been a response to this phenomenon of interdependence. A number of these experiences have been successful but a number have also been failures. Such failures, needless to say, should be avoided. As the pressure for interdependence gradually builds up, the need to forge desirable interdependence through mutually beneficial joint ventures also builds up. Thus, our country ought to develop the capability to negotiate maturely in order to develop useful and sustained joint ventures.¹ This brief article on negotiation strategy in joint ventures is a discussion of this important aspect of Philippine industrial growth and development.

The Points of View in Joint Ventures²

It is important to realize that with respect to joint ventures there are three basic points of view that must be considered. These are:

- The point of view of the local company

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¹ Cf. Schelling, Chapters 1 and 2.
² Cf. Nehrt and Soriano

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• The point of view of the foreign company and
• The points of view of the host government and the government of the foreign partner.

These are interacting points of view as illustrated by Figure 1 below.

![Diagram]

Figure 1. Interacting Points of View

These three points of view have to be considered in their entirety when going through a negotiation process with the end-view of establishing a joint venture.

The point of view of the local company is multi-faceted. It usually includes the following components:

• Access to patent or manufacturing rights
• Use of trademark
• Additional management expertise if and when necessary
• Advice on trends in styles as well as on product development
• Access to foreign marketing channels
• Additional capital and
• Vital technical services when necessary.

Technical services that become available to the local company as a result of the new relationship can include such items as architectural and engineering design and construction of the plant; training for the company's skilled workers and other personnel (e.g., technicians, engineers, and managers); product re-design (if and when necessary)
The point of view of the foreign company has its own important facets. Basically, the nature of a foreign company's interest consists of its desire to:

- Penetrate the local market or retain and protect its already established share of the local or regional (i.e., among countries) market and
- Establish a manufacturing base which provides certain advantages (e.g., labor and/or raw materials availability and/or cost advantages).

In this connection, it needs to be pointed out that the nature of a foreign company's interest must be seen in the light of certain basic considerations. First, the foreign company must never be looked upon as a "big brother", much less as a charitable institution. Second, unless it cannot be helped, the foreign company usually refers a majority equity position in the joint venture. Third, the foreign company, like any other organization, places a premium on minimizing risk. This risk minimization usually comes in the form of early payback projects, arrangements with minimum exposure to evaluation, and arrangements that would enable the foreign company to contribute more in terms of patents, trademarks, and know-how rather than direct investments.

There is another aspect of the foreign company's point of view that needs to be discussed briefly. This refers to the fact that in some unstable political situations, a joint venture does offer some kind of protection from contingencies such as sudden nationalization moves by the part of a host government. While a joint venture is not a guarantee against nationalization measures, it does provide some lead time for alternative moves on the part of the parties involved in the joint venture.

The point of view of both governments is no less critical than the first two points of view discussed earlier. Usually, the host government looks for implications of a potential joint venture on the two broad areas of concern. These are:

- A concern for the balance of payment effects and
- A concern for the economic development effects.
Generally, a favorable balance of payment effect would be looked upon favorably by the host government. With respect to economic development implications of the joint venture, the government would usually want assurance that new jobs would be created significantly; that training for local manpower would be available; that the product would have a substantial content of raw material immediately or in the not-too-distant future; that suppliers would be developed in order to spread opportunities around; and that the joint venture is consistent with regional cooperative efforts being forged among nations in the region of which the host country is a part. Governments of foreign parts generally promote profitable transfer of technology and access to raw materials and markets.

These are the points of view that must be effectively linked when developing a viable joint venture. In most cases, it is safe to assume that during the process of negotiation, the points of view of both governments would be relatively fixed over a certain period of time. Therefore, flexibility in negotiation would have to come from the willingness of the potential partners in a joint venture to modify within tolerable limits their respective points of view. It is to be expected that one’s point of view that the rest of the paper will address itself.

The Basic Elements of a Tie-up

A viable joint venture or tie-up between a local company and a foreign counterpart must have two basic elements without which a joint venture cannot be established on a long-term basis. First, the parties involved in the joint venture must have a sense of net gain. Second, the tie-up must provide a system of countervailing controls.

Negotiating and setting up a joint venture is not a “zero-sum game (i.e., gaining at the expense of the other). This means that the joint venture should not be set up in such a way that one party thinks that the arrangements are mainly for the benefit of one at the expense of the other. A relationship that starts out on this basis may work out in the short run but will be untenable in the long run. One party may agree temporarily simply because he is forced into the relationship. A lasting relationship can be forged only if the parties feel that the tie-up have a continuing sense of net gain from the relationship.

A working system of countervailing controls is what makes...
But how should the parties engage in mature negotiations?

Approaches to Negotiation

At the outset, it should be stated that negotiations will not bear good fruit unless the parties participate with a certain degree of maturity which comes with familiarity and experience with the negotiation process.

The first important approach to negotiation concerns the negotiation posture. The parties to a negotiation must adopt one or a combination of five possible postures. These postures are:

- Cooperation
- Conflict
- Containment
- Power relationship
- Accommodation

Ideally, the cooperative posture is the most desirable for both

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3 Cf. Kehoe.
parties to adopt. Under the cooperative posture, both parties share mutual areas of concern and are willing to work together toward giving effective attention to these areas of mutual concern. Negotiation under the conflict posture is the most undesirable. It is carried out under conditions where one party is forced to accept a relationship because of circumstances that are temporarily out of control and thus looks forward to the time when the joint venture will no longer be necessary. Negotiation under the containment posture is a situation where one party tries to get into a dominating situation while the other strives to counter this by keeping the former within certain boundaries. A negotiation under the power posture develops a relationship whereby one has effective power to influence the other party’s position. Negotiation under an accommodation posture develops a relationship whereby one gives in with respect to minor considerations but holds firm with respect to certain organizational priorities (which one party desires to be relatively inflexible).

Table 1

COUNTERVAILING CONTROL PROFILE IN A JOINT VENTURE

<table>
<thead>
<tr>
<th>Elements of Control*</th>
<th>Local Company</th>
<th>Foreign Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ownership</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Domestic marketing</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Export marketing</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Manufacturing</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Technology and research</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Key people (except treasurer)</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Domestic pricing</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Export pricing</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Quality control</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Suppliers (imported raw material)</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Hiring and firing of staff</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>New investments (within host country)</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>*</td>
<td></td>
</tr>
<tr>
<td>Various credit lines (foreign)</td>
<td>*</td>
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</tr>
</tbody>
</table>

*Refers to party in substantial control.
An important precaution in the negotiation process is to avoid all-or-nothing situations. Mature negotiators are experts at avoiding all-or-nothing situations. As a matter of fact, this orientation must be maintained by both parties from the negotiating table to the joint venture operation itself.

The second important approach to negotiation is to respect certain unwritten rules of negotiation. These rules may be summarized as follows:

- The initiation rule
- The demand rule
- The agenda rule
- The tentative agreement rule
- The deadline rule and
- The termination rule.

The initiation rule suggests that as much as possible the negotiation be started or triggered off by some neutral signal or party. This is necessary in order that one party will not be forced prematurely to "show his hand." Starting negotiations is both a threat and a source of opportunities to both parties and, therefore, should be started off by a mutually safe signal.

The demand rule suggests that the party that makes the first offer is expected to offer a package that gives it maximum advantage but provides a lot of room in which to fall back on if and when necessary. It also suggests that the party that receives the former's first offer is expected to give a counter-offer that is relatively unattractive (but not ridiculously unrealistic). The rationale for this rule is to provide both parties enough elbow room for bargaining and thus avoid the all-or-nothing situation described earlier.

The agenda rule suggests that the very optimistic first offer and the relatively pessimistic counter-offer sets the agenda for negotiation in the sense that the limits and boundaries of the various elements to be negotiated on have been set by the first round of offers and counter-offers. This suggests further that no new elements may be introduced into the negotiation agenda.

The tentative agreement rule suggests that during the course of the negotiation all agreements are tentative until agreement on all elements is reached. This rule preserves the flexibility of both parties and helps avoid the all-or-nothing situation.
In order that there is a built-in signal for the negotiating parties to put pressure on themselves relative to certain commitments that have to be made as a result of the negotiation, a negotiation deadline is preset. The fact that one party drags along in spite of the presence of a negotiation deadline may suggest a certain degree of inflexibility with respect to certain elements being negotiated on.

The termination rule suggests that negotiations end when agreement on all elements has been reached. Therefore, no new items may be brought up after the agenda has been covered.

The foregoing rules remain largely unwritten in all negotiating efforts. It would be extremely helpful, however, if the negotiating parties keep these rules in mind in order to inject maturity and rationality in the negotiation process. Oftentimes, negotiations are broken off unintentionally simply because these rules were not taken seriously.

Influencing Each Other’s Point of View

A rich menu of tactics is available in terms of influencing the other’s point of view. The process of influencing the other’s point of view is graphically described in Figure 2.

![Diagram](image)

**Figure 2. Influencing Process**

\(^4\text{cf. Kehoe.}\)
Figure 2 shows the positions of A (the local company) and B (the foreign company) before negotiations take place. Both companies, however, have certain minimum positions unknown to the other. The process of negotiation is a process whereby A influences B to reduce its aspirations and vice versa. Through this mutually influencing process, the parties hopefully reach a minimum point agreeable to both parties which, at the same time, gives both parties a sense of net gain. It prevents a premature break off in negotiations at points above the minimum position that a mature negotiation addresses itself to. This is where a judicious coherence to negotiation rules becomes very important.

How does one party influence the other’s point of view? This leads us to the next point which touches on negotiating tactics.

Certain negotiating tactics may be used by both parties provided they are employed within the context of the negotiation rules discussed earlier. If used effectively, tactics described briefly below would enable both parties to influence each other’s point of view:

- Sharing information
- Persuasion and rationalization
- Coercion (i.e., limiting possible outcomes)
- Use of sign language
- Use of “trading horses” and
- Gradual commitment.

*Sharing information* is a tactic used to express one’s own preferences as well as discover the other’s preferences without actually making an offer or a commitment. New information tends to affect one’s assessment of the situation. *Persuasion and rationalization* is a tactic used to actively change the other’s preferences as well as affect the other’s level of expectations. Using Figure 2, persuasion and rationalization is an active effort to make A travel from A to C and B travel from B to C. *Coercion* is a tactic whereby one party limits the possible alternatives without creating an all-or-nothing situation. This is done by taking certain moves and in some cases resorting to bluffs. The tactic of using *sign language* is used when one party wants to offer a concession but at the same time wants to protect itself against a possible rejection. It also enables the party offering the concession to indicate areas of concession and, at the same time, protect its negotiating strength. An example of the use of sign language is when B is requested by A to agree on a point B had been vigorously objecting to in earlier sessions.
and then all of a sudden, instead of objecting, B just says “Let's discuss some other matter first and get back to that later.” Without actually saying so, B has in fact given a concession — that it is willing to discuss the possibility later. A should be sensitive to such cues. The tactic of trading horses can be useful at times. This means that A should be ready to trade some bargaining element in exchange for a concession from B. The tactic of gradual commitment is an effective way of influencing the other’s point of view and serves as an indicator of how inflexible one wants to be regarding a certain point being negotiated. Essentially, this tactic means that one party, say A, takes certain irrevocable incremental steps which may lead to a certain irrevocable final result in order to show B (gradually) that it will not reconsider its position with respect to a certain point. This process is illustrated in Figure 3 below:

![Figure 3. Gradual Commitment](image)

As shown in Figure 3 above, Position 1 represents the start of negotiations between A and B. At Position 2, some partial impasse is reached and to show A’s firmness with respect to the point where there is a partial impasse, A starts negotiations with a company other than B. This should be taken by B as a signal of A’s intentions and, therefore, if the point is not crucial to B’s position, it should consider giving in to A at this point. If B wants to probe further (risking, of course, a possible break-off in negotiations with A), it may make some modest effort to insist, at which point A may move to Position 3, making a certain tentative agreement with another company. As can be seen, therefore, the process of gradual commitment is a signal of interest on a certain point under negotiation without immediately creating an all-or-nothing situation.

**The Man on the Spot**

One final point is particularly important with respect to the role
of the negotiators (i.e., the man representing the local company and
the man representing the foreign company). As they face each other
during negotiations, they should constantly remember that each of
them represents a set of constituents (key people who may have the
final say: stockholders, etc.). In this sense, therefore, each negotiator
goes to the negotiation table as a delegate of his constituents. This is
the first phase of the negotiation process. The negotiator remains a
delegate of his constituents until such time that a zone of agreement
is reached. When this is reached, they move to the next phase which
is to sell to their respective constituents what they have tentatively
agreed upon. In this phase, the negotiators cooperate as much as
possible (without weakening each other’s positions) in selling the
agreement to their constituents.

Summary

Interdependence is an irreversible phenomenon manifesting itself
more and more in today’s world. The need to establish joint ventures
is an indication of this phenomenon in the business world. As the
pressure of interdependence builds up, the pressure for more viable
joint ventures will correspondingly build up. Hence, there will be a
need for a country such as the Philippines to develop the capability
among managers and entrepreneurs to involve themselves in mature
negotiations with foreign companies. Mature negotiations involve an
awareness of certain rules of negotiation as well as certain negotiating
tactics which, if used effectively, can help avoid unintended
break-offs in negotiating efforts to forge joint ventures.

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