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 Ventures[2]

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

- The point of view of the foreign company and

- The points of view of the host government and the governm
of the foreign partner.

These are interacting points of view as illustrated by Figure 1 bel

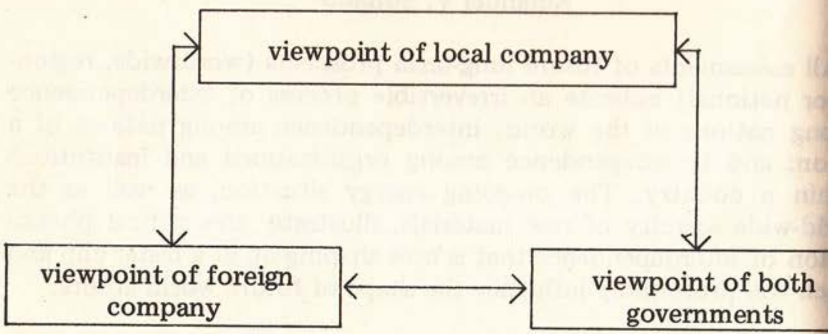

Figure 1. Interacting Points of View

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

The point of view of the local company is multi-faceted. It usua 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 developme
- Access to foreign marketing channels
- Additional capital and
- Vital technical services when necessary.

Technical services that become available to the local company a result of the new relationship can include such items as architectu and engineering design and construction of the plant; training for company's skilled workers and other personnel (e.g., technicia engineers, and managers); product re-design (if and when neede and quality as well as productivity improvement.

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 prefers 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 devaluation, 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 on 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 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 lo 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 wou created significantly; that training for local manpower woul 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 opportur around; and that the joint venture is consistent with regi cooperative efforts being forged among nations in the regio which the host country is a part. Governments of foreign part generally promote profitable transfer of technology and acces raw materials and markets.

These are the points of view that must be effectively linked w developing a viable joint venture. In most cases, it is safe to ass that during the process of negotiation, the points of view of governments would be relatively fixed over a certain period of t Therefore, flexibility in negotiation would have to come from willingness of the potential partners in a joint venture to mo within tolerable limits their respective points of view. It is to process of influencing each other's point of view that the rest of paper will address itself.

The Basic Elements of a Tie-up

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

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

A working system of countervailing controls is what mak possible the continuing sense of net gain. When the concept of control in joint ventures is mentioned, what is thought of usually is just ownership control. But ownership control is just a part of the broad range of control possibilities in any joint venture. This broad range of control possibilities includes marketing control, manufacturing control, control of technology and research, key people, pricing, quality, control of suppliers, hiring and firing of staff, decisions on new investments, decisions on dividends, and the manner of financial packaging. Thus, even if one party has 100% ownership of the joint venture, countervailing control is said to exist as long as the other party has 100% control over export marketing activities. Similarly, one party may be in control of quality specifications as well as new technology and research. Thus, one party controls a set of elements and the other party controls the remaining set of elements. A countervailing control system in a joint venture may, therefore, look like what is shown in Table 1. A countervailing control arrangement is what the parties negotiate over when a relationship is being forged. Subsequently, the parties strive to either modify or strengthen the arrangement in order to preserve that sense of net gain that must be present if a joint venture is to remain viable.

But how should the parties engage in mature negotiations?

Approaches to Negotiation[3]

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

[3] Cf. Kehoe.

parties to adopt. Under the *cooperative posture*, both parties shar mutual areas of concern and are willing to work together toward giving effective attention to these areas of mutual concern. Negotia tion under the *conflict posture* is the most undesirable. It is carrie out under conditions where one party is forced to accept relationship because of circumstances that are temporarily out o control and thus looks forward to the time when the joint ventur will no longer be necessary. Negotiation under the *containmen posture* is a situation where one party tries to get into a *dominatin situation* while the other strives to counter this by keeping th former within certain boundaries. A negotiation under the *powe posture* develops a relationship whereby one has effective power t influence the other party's position. Negotiation under an *accom modation posture* develops a relationship whereby one gives in wit respect to minor considerations but holds firm with respect t certain organizational priorities (which one party desires to b relatively inflexible).

Table 1

COUNTERVAILING CONTROL PROFILE IN A JOINT VENTURE

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

*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 t put pressure on themselves relative to certain commitments that hav to be made as a result of the negotiation, a *negotiation deadline* preset. The fact that one party drags along in spite of the presence c a negotiation deadline may suggest a certain degree of inflexibilit with respect to certain elements being negotiated on.

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

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

Influencing Each Other's Point of View[4]

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.

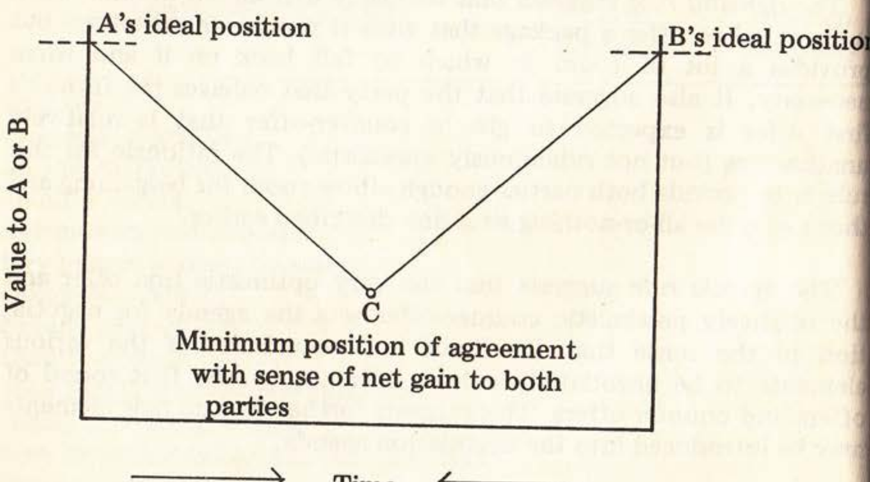

Figure 2. Influencing Process

[4] 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:

Position 1 (Start of negotiation)	Position 2 (A starts negotiation with another company)	Position 3 (A makes tentative agreement with another company)	Position 4 (Break off negotiations)

Figure 3. Gradual Commitment

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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