

Developments in Business Simulation & Experiential Exercises, Volume 16, 1989

A STIMULATING SIMULATION IN INTERNATIONAL BUSINESS NEGOTIATIONS WITH A JAPANESE COMPANY

Harry S. Axe. Temple University

ABSTRACT

The following study represents a description of development use and evaluation of a computer assisted international business negotiation game as a supplemental pedagogic technique in a course in Management Multi-National Firm.

INTRODUCTION

He who knows not, and knows not that he knows not is a fool - shun him;
He who knows not and knows that he knows not is ignorant - teach him;
He who knows, and knows not that he knows is asleep - wake him;
But he who knows, and knows that he knows is a leader - follow him!

(Anonymous Japanese Proverb)

This quote expresses what is probably one of the most difficult questions confronting those teaching international business management skills to students. Namely, how can a valid, reliable model of reality be constructed to allow students "to know that they know". They must be assured that they possess the knowledge and skills to transact international agreements with those of different cultural values and backgrounds.

Mehrez (1988) stated that the relationships between inputs, processes and outputs (results) should be very similar to those in the actual internal tonal business environment to provide students with the opportunity to be reinforced as to what they know. For instance, in a game where the average profit margin of twenty percent is the actual margin, the hypothetical margin is portrayed as forty percent. This is clearly not valid as an actual portrayal of reality. Another example would involve a game where negotiations between companies of two countries did not include any consideration of the differing cultural and background values of the participants. Students must be provided with reality based exercises to test what they know and what they can do.

The purpose of this study is to explore the extent to which a newly developed reality based on international business negotiation teaches students about the importance of cultural, political, and economic differences upon the outcome of actual negotiations in order to compare student outcomes to actual negotiation outcomes for this case and to evaluate student attitude changes concerning cultural differences in these negotiations.

REVIEW OF LITERATURE: INTERNATIONAL BUSINESS GAMES AND SIMULATIONS

Although there has been a greater emphasis in recent years placed on the international aspects of undergraduate and graduate business programs, there are very few "reality based" skill development exercises (games, simulations or even cases) available for this purpose. Yet Klein (1984) indicated that an international business simulation game could provide a more valid framework for sensitizing students to the critical issues involved in international

business.

Tansuhaj and Gentry (1988) introduced INMART a microcomputer game designed to be played by individual students. They stated that students should gain both decision-making skills and also microcomputer skills. The game is designed to be played individually or by teams. Each student assumes the role of the International Division Manager for a U.S. based computer corporation. The manager has been given the authority to make final marketing decisions when its products are introduced through its sales subsidiaries in four different countries (Brazil, Canada, France, Hong Kong). The student is expected to familiarize himself/herself with these markets through a pre-game assignment (i.e. library investigation of the countries). For each quarter he/she has to decide whether to export to any or all four countries. Then, for each country, he/she needs to decide on the quantity to be exported, the relative prices and promotional expenditures. Although there are only three decisions to be made per country, players must analyze the many factors involved in the marketing program for each country prior to making the decisions.

Murayama (1985) surveyed many games utilized by Japanese companies to develop the skills of their international managers. These include the following:

1. "Tanabe Manufacturing Company" - helps players effectively make effective quality control and marketing decisions.
2. "Camera industry Game" - simulates the international camera industry. Several different size company teams compete against each other assigning functional roles to players involved in new product research and development.
3. "Kotomae Kanrj (Beforehand Control) Game" - simulates the Budgeting at Matsushita Industries. This system is extremely valid and the difference between the game generated budget and the actual monthly company results is less than 1%.

Bissada and King (1984) developed the strategy game entitled Ex-stra Export. It is an administrator run game, which should be used by competitive teams. It is designed to utilize an Apple LIE microcomputer. Five or six teams are usually involved. They export to one to three markets chosen from a total of twelve countries. The game emphasizes the following:

1. Product development - through the adaptation of the product to specific export requirements;
2. Production strategy - through determination of how much capacity to use, and
3. Marketing strategy - through pricing and channel decisions.

Before students select countries for exporting they are required to make a thorough analysis of the local environments and their political and economic risks.

Developments in Business Simulation & Experiential Exercises, Volume 16, 1989

Duty levels, currency values, and trade policies all change during the course of the game and students must respond accordingly.

Finally, Thorelli, Graves and Howell (1963) developed INTOP (The International Operations Simulation). This game has been available for over twenty years. It has been traditionally an administrator run mainframe game. Students produce either or both of two products and various levels of quality are achievable for each product through investment in research and development. Plants may be located in any of the three markets: the United States, the European Economic Community and Brazil. Unlike the previous simulations described in this review, it is not interactive - meaning that students do not interact through the parameters of the game.

In summary, with the exception of Ex-stra Export, a strategy game, this literature search has only revealed one game in functional area of international business. No games are presently available to provide students with a simulation to test these acumen in negotiating agreements with individuals having different cultural values and backgrounds than their own. In addition, none of the simulations presented herein-evaluated results for validity or reliability.

PROCEDURE

Two main methodologies were employed in Management 103, Management of the Multinational Firm. Students each become involved in 'country specific' study. (This author will use the model involving negotiation with the Japanese, for purposes of illustration. However, the same procedures can be used for studying and evaluating the effects of the use of games in learning international business skills for any country).

Students involved in the study of Japan and the multinational corporation learned first through lectures and discussions how Japan, like most highly successful industrialized countries, has successfully blended the old traditional cultural concepts - with new modern technology. These lectures are based on How to Negotiate with Japan, Inc. (Moran, 1984). Some of the topics discussed in the lecture and discussion portion:

1. Background and values of Japanese Negotiators as American Negotiators and Comparative Perceptions.
2. Ground rules and pointers from actual negotiations.
3. Steps in effective negotiation preparation.
4. Negotiation session procedures.
5. Effects of after hours socializing on Success in Negotiations.
6. Potential areas of impasse and dispute resolution techniques.
7. Meeting the Challenge of Japan, Inc.

After each lecture, students discuss written answers to questions given to them by the professor. All students are then tested using a combination objective and essay test. The objective questions are from an author prepared test bank previously validated by the author. Test results are computer graded using an item analysis to test for validity and reliability.

Upon satisfactory completion of this "negotiation readiness" test, students then participate in the second part of the course - the negotiation simulation.

Lastly their changes in attitudes are evaluated at a debriefing session as the last class.

FINDINGS

A total of 30 students, 15 American and 15 Japanese neither with very substantial understanding of the cultural or background values of the other, were first evaluated at the beginning and then at the conclusion of this course based upon their knowledge of negotiations through a combination objective and essay test. Secondly, they were assessed on their ability to negotiate an actual joint venture agreement with individuals having different cultural and background values. Finally, they were appraised on the amount of change in attitude, towards the importance of cultural differences between foreign (Japanese) and American participants in contract negotiations by use of an attitude survey developed by the author and administered before and after the negotiations.

To determine the extent of changes in participant knowledge, a combined objective and essay test was administered before and after the lecture and discussion phase of the course was completed.

The results of this test indicated that students were significantly more prepared for negotiations upon completing the lecture and discussion portion of the course than they were before the course began:

Table I
Comparison of Tests Scores Before/After Lectures and Negotiation Exercise

Pre-test Mean	Post-lecture Mean	Post-Negotiation Mean	Standard Deviation Mean
65.0	72.5	80.0	±5.1

It was also found that students' performances on another form of the test improved substantially upon completion of negotiations when an alternative test form was given. Also at the conclusion of the lecture portion of the course and also at the conclusion of the negotiations after the debriefing session the student attitude survey was administered to the same groups. Included in each questionnaire were instructions explaining its purposes and directions for completing it. A Likert scaling weight was assigned to each objective rating determination for each factor in the rating scale as follows:

1	2	3	4	5
outstanding	good	satisfactory	marginal	poor

The total number of responses for each of the five categories (frequencies) was then tallied. All scale values are based upon a frequency of responses for each of the criteria listed in the Student Attitude Survey. Students were instructed to candidly rate the course in terms of the criteria shown on the next page. After the students completed the forms, they were returned anonymously and placed in a sealed envelope by them for tabulation. Results obtained through the use of the Likert scaling techniques previously discussed yielded both responses to individual items and a distribution of scores are shown in summary form below:

Developments in Business Simulation & Experiential Exercises, Volume 16, 1989

Table II
Management 103. Student Evaluation

<u>Evaluation of Course</u>	<u>Before/After Negotiations Exp. Control</u>		<u>Before/After Negotiations Exp. Control</u>	
- Overall course impact on student knowledge of international business negotiations	4.1	3.1	4.3	3.7
- Value of test and other lecture notes	3.6	3.7	4.5	3.6
- Value of negotiations toward understanding appropriate behavior and actors leading to success	3.9	3.8	4.3	3.8
- Other comments				

The Japan Negotiations Game

The purpose of this comprehensive game to apply the theory is to familiarize students with the dynamics of negotiating a business agreement with people having different cultural backgrounds and values and to provide students with the opportunity to experience some of the joys and frustration of attempting to secure favorable terms in business arrangements with foreign individuals - specifically Japanese. This type of exercise should be extremely valuable to American and other students of international business and practitioners preparing for business negotiations with the Japanese. This is empirically important in light of the dismal findings of a Japanese Ministry of International Trade and Industry study showing that one out of every seven foreign companies retrenched and eventually pulled out of Japan. (Tung, 1984). Many gave as their reason for failure, the inability to negotiate effective contracts.

A Case In Point: SmithKline Corporation

Tung (1984) developed the case upon which this simulation is based. The facts are taken from her study entitled, Business Negotiations with the Japanese. "Two Pharmaceutical Joint Ventures." The two pharmaceutical companies involved in the negotiations are SmithKline (now SmithKline Beckman) and Fujisawa. Students were required to research the factors leading up to the decisions actually made to form the joint venture and to critique false decisions.

History and Background Leading to Current Negotiations (Tung, 1984)

SmithKline a multinational pharmaceuticals company introduced several products into Japan in the 1960's. These were primarily proprietary drugs - products that did not require a prescription. The first of these was 'Contact' cold capsules. At the time SmithKline had no appropriate line of ethical (prescription) drugs to sell in Japan because many of the company's largest selling items were either licensed

from European pharmaceutical companies and did not include Japan in their territory or were otherwise unsuitable for the Japanese market. Therefore SmithKline had to wait for new product developments which would be significant enough to make them available to the Japanese market.

Eventually, SmithKline gained the opportunity to enter this market through Tagament, which was found to be effective in curing duodenal ulcers. Clinical use proved that continued use of this product could significantly reduce the relapse rate among ulcer sufferers. Furthermore, this product appeared suitable for the Japanese market because of their high rate of gastrointestinal disease, particularly gastric ulcers. Therefore, due to the potential of this market, SmithKline decided to explore the possibility of establishing a presence there. This was the first choice upon which students had to agree or disagree. Three alternative modes of entry were possible: licensing, establishing a wholly owned subsidiary, or establishing a joint venture agreement with a Japanese pharmaceutical company. After an in-depth analysis, using principles reviewed during the lecture portion of this course, the class had to evaluate SmithKline's decision. The company is the third largest pharmaceutical company in Japan in net sales and second in net income. SmithKline was particularly impressed with Fujisawa's sales and distribution network in Japan.

Prior to the negotiations for the joint venture, SmithKline's contacts with them were primarily in two areas:

1. When SmithKline's product 'Contact' was first introduced into Japan in the 1960's, Fujisawa executives testified in their behalf before the Ministry of International Trade and Industry that SmithKline was a solid respectable company.
2. A more significant relationship was formed between the two companies through a licensing agreement whereby SmithKline obtained the exclusive right to distribute Fujisawa's cefazolin antibiotic in the U.S. This licensing agreement further strengthened their business relationship.

Against the backdrop SmithKline approached Fujisawa for the possible formation of a joint venture to market Tagament, a drug which could be very profitable in the Japanese market. This is the subject of the actual negotiations between our Japanese and American students:

Negotiating Teams

1. The class was divided into teams of four negotiators for SmithKline and four for Fujisawa playing the following roles:

<u>SmithKline, Japan</u>	<u>Fujisawa</u>
Peter Sears, Gen. Mgr., Operation Warren Hauser, Attorney, Office of General Counsel President Alan Dolby, Int. Division J.P. Young, Consultant, Expert on Japanese Culture.	Mr. Toguchi, Dir. Mr. Aoki, Co. Coun. Mr. K. Michi, VP, Intl. Operations

The first actual set of negotiations, which led to the

Developments in Business Simulation & Experiential Exercises, Volume 16, 1989

formation of SmithKline-Fujisawa lasted for three years. They took place in Tokyo. The simulation between Japanese and American students playing these various roles also took place in Japan at the Temple University Campus.

Issues Under Negotiation

The major issue under negotiation was the form of a cooperative agreement between the two companies. Students were informed that this is often the most difficult, time consuming issue to negotiate. Once this issue was resolved, other matters to be discussed included 1) percentage of equity ownership for each firm; 2) management of the joint venture; 3) name of the Japanese Joint Venture and; 4) product and perceived differences in objectives. Prior to negotiations each team separately established their initial, fallback and final positions.

Effects of Cultural Differences and Their Impact on Negotiation Success

The salient cultural differences that could influence the progress and how come of the negotiations and were experienced by the student negotiators were as follows:

1. Japanese Consensus vs. American Expert Responsibility to make decisions

Japanese negotiators frequently caucused with their headquarter; about the appropriate courses of action. This is termed ringi seido. It is the principle method of decision-making used by over 90% of the large firms, as well as by most of the medium and small firms. While this "bottom up" reviewing process may take a lot of time from a Western perspective, once consensus is reached, the implementation state is rapid and efficient. Japanese negotiators in the TUJ simulation utilized this technique to the chagrin of the American negotiators. Understanding the ringi is crucial to successful negotiations in Japan because it is the "filter" through which all Japanese negotiators' ideas usually pass. The negotiator may not have the authority to make decisions beyond those granted by this group. It is not uncommon for what could be a two-day negotiation session in the U.S. to last for over two weeks in Japan. Often, in fact, it may be months or years.

2. Japanese Business Negotiating Courtesies

Protocol was scrupulously observed in Japan during negotiations. Failure to do this could have led to abrupt cancellation of negotiations. Also, the Japanese used ritualized meetings and good-byes. People used handshakes together with a bow. They used business cards, printed in Japanese on one side and English on the other. They rarely call each other by first name and often referred to by title instead of name such as kacho-san, meaning department head. Also, the unwillingness of Japanese negotiator to say "no" is the one trait that most confuses westerners. According to Moran (1984) "No" is never used outside of completely reciprocal relationships, and from superior to subordinate. You rarely receive a 'no' he would use 'yes' in the verbal form. Verbal cues for foreigners take a long time to learn. The American student negotiators did not realize that when a Japanese person is feeling pressure to give an answer, he might draw his breath through his teeth and say "sah", or a slightly less ambiguous, "it is very difficult". In both cases, the negotiator probably means no, but he/she avoids saying it for fear of hurting the feelings of the other person and to be polite. (The American students had difficulty with this during the simulation. They often felt

there was an agreement when in reality there was not).

3. Differences in Time Perspectives

The longer-term time perspective usually does not imply that the Japanese are not concerned about the bottom-line figure. Ultimately, any joint venture must be profitable or there is no incentive for either of the partners to continue their arrangement. However, as stated by the consultant to the actual SmithKline negotiations, the Japanese are more interested in the bottom-line relative to the long-term plan or budget that they have developed, rather than the bottom-line as considered by financial analysts evaluating their stock against the competition. The probable reason for this is the cultural importance attached to patience in Japan. Also, Japanese investors are primarily institutional (banks, for example). Therefore they have developed a longer-term orientation toward their investments. TUJ's American students also had difficulty understanding this time perspective as they reported during the debriefing session at the last class session.

4. Attitude Toward Change

The Japanese aversion to a change in position unless the business environment has been significantly altered may explain their deliberate lack of clarity on some negotiation points. This was identified as one of the salient cultural characteristics of Japanese businessmen. This may account for the Japanese reluctance to pinpoint what they meant when they said they wanted to establish a presence in the U.S. market. The American negotiators were unsuccessful in pinning them down on this point.

Debriefing: Student Evaluation of Negotiations. The following observations were made by students at the conclusion of negotiations:

1. Preparation for Negotiations

The Japanese were usually meticulously prepared for negotiations. American negotiators revealed that they should have addressed the following issues before they began negotiations:

a. Communication styles and barriers to effective communication such as the part to be played by interpreters; differences between Japanese and American business ethics and practices, and nature of experiences with their counterparts even though these were limited. New relationships should have been modeled after the friendship between top executives from the separate companies.

b. Negotiation processes, such as how to maintain good communications with their interpreter. This required that the students playing the role of SmithKline negotiators be kept informed on the nuances of the other team's participants and possible conflicts that might have been avoided. For example, they should have tabled any issues that were perceived as "sticking" points. They did review points that were agreed upon during the meeting. This helped them work toward common ground, reserving difficult points for later. (Order of presentation was very important).

c. Decision-making techniques. Methods of decision-making of American negotiators were usually not based on the consensus approach used by the Japanese. Also, another major difference between the Japanese and American approach was the amount of time that the Americans spoke compared to the observance of long

Developments in Business Simulation & Experiential Exercises, Volume 16, 1989

silences on the part of the Japanese. These factors were supported by Moran (1984).

Tung (1984) reports that the chief negotiator on the Japanese team usually does most of the talking; the others are generally silent observers. By contrast, Americans tend to give the floor to whomever is the subject matter expert. If it were a legal issue, the lawyers would handle it, etc. Although the Japanese team would caucus when the leader feels it is necessary for purposes for evaluating proposals or clarifying unclear issues. The chief negotiator of the Japanese team would make all statements for his team to the other team. These observations were supported by the TUJ negotiators during their debriefing sessions.

2. Other Factors Leading to Successful Negotiations

a. Complementarity of needs. If the objective of both companies was to "establish a presence" in each other's markets and they each have a product needed in the other's market, then they both will succeed. Also, each side must be convinced and also convince the other side that they both lack the capability to start out on their own, given the problems of product testing, recruiting a sufficient (detail) sales force, and otherwise distribute their product.

b. Synergy not compromise. Moran (1984) reports that successful negotiations depends on "synergy" taking values, techniques and principles from the two cultures and combining them to elevate the joint endeavor to higher level of efficiency and harmony. By contrast "compromise" involves give and take, which reinforces the assumption of "win-lose", Synergy is "win-win". Nothing is given up or lost. It requires more sensitivity and understanding of the other party's value system. For example, when the parties try to determine shipping times and delivery to the other's market, they may not be able to reach an agreement. The Americans may desire a specific deadline for delivery due to security and consistency of having time frames on paper. The Japanese do not want to commit themselves to specific deadlines that, if not met, would cause a problem. The synergistic solution may be to specify a range of times for the delivery.

SUMMARY AND CONCLUSIONS

1. No firm generalization for all such games can be inferred from this analysis of test results or student attitudes to measure student performance when comparing game results to test results before and after lecture discussion and the negotiation game in this course.
2. Differences were shown however on comparative student attitude surveys between the individual student attitudes before and after the game and the group, before and after the lecture and discussions. The experimental group clearly indicated that the game was a more intensely valuable learning experience than the lecture and discussion. These results were also confirmed by both the Japanese and American groups although learning could only be inferred from student reactions to interpersonal interactions with other players, most agreed that this opportunity was far more effective than lecture, discussion or any case work to help them understand the problems they will encounter when engaging in business with people who are culturally different. These differences were overwhelming acknowledged by both American and Japanese negotiators at TUJ.
3. Finally, even though this study has not indicated that there is a significant relationship between the use of a game and improvement of student performance on tests, this particular study confirmed a previous study by this

author (Axe, 1988) revealing better test scores and improved attitudes for significant numbers of students in an experimental group after the game was used. Furthermore, although not statistically significant, many continents from students indicated increased understanding of the kinds of things that can be done by both Japanese and American business people to "bridge the cultural gaps" between them to reach agreements. This was in fact the major purpose of the exercise.

REFERENCES

- Axe, Barry S. (1988), "Should Students Play Games in Labor Relations", Developments in Business Simulation and Experiential Exercises, vol. 15, p. 165-169.
- Bissada, Y.F. and Gundar, J. (1984), "The Ex-Strat Export Strategy Game", in David M. Currie and James W. Gentry (eds.), Developments in Business Simulation and Experiential Exercises, vol. 11, p. 45.
- Klein, Ronald D. (1984), "Adding International Business to the Core Program Via the Simulation Game," Journal of International Business Studies, vol. 15, (no. 1, Spring/Summer 1984), p. 151-159.
- Mehrez, A. and Reichel, A., "The Business Game vs. Reality", Simulation and Games, December 1987, p. 488-500.
- Moran, Robert J. Setting Your Yen\$ Worth: How to Negotiate with Japan, Inc., Houston, Texas: Gulf Publishing Company, 1984.
- Murayama, K., "Japanese Business Games", Simulation and Games, 1985, p. 131-5.
- Tansuhaj, Patriya and Gentry, James W., "Introducing Inmart: An International Marketing Simulation Game", Developments in Business Simulation and Experiential Exercises, vol. 15, p. 259-61.
- Thorelli, Hans B., Robert L. Graves, and Lloyd T. Howells (1963), INTOP (International Operations Simulation), Toronto: Free Press.
- Tung, Rosalie L. Business Negotiations with the Japanese, Lexington, MA: Lexington Books, D.C. Heath and Company, 1985.