Power asymmetry in intercultural business negotiations and its impact on negotiation strategies

Frank Jacob
frank.jacob@escpeurope.eu Germany ESCP Europe
Robert Wilken
robert.wilken@escpeurope.eu Germany ESCP Europe
Tayfun Aykac
tayfun.aykac@yahoo.de Germany ESCP Europe
Nathalie Prime
prime@escpeurope.eu France ESCP Europe

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ABSTRACT

Negotiations in business-to-business (B2B) markets between selling and buying companies increasingly cross borders. In these negotiations, managers are often confronted with unequal power distributions. Extant research focuses on the parties’ best alternatives to negotiated agreements (BATNA) and network options as antecedents of such power asymmetries. Parties in low power positions regularly reach poor negotiation outcomes because stronger parties likely apply behavioral patterns such as threats. However, these studies do not consider attributes of negotiations between parties with different cultural backgrounds, which may impact how parties exercise power. Hence, we use an intercultural setting to study power asymmetries. Combining theories regarding power and culture-bound negotiation styles, we predict negotiation strategies (integrative, distributive) to be conditional on the level of collectivism of the more powerful party. Hereby, we manipulate power through team size and extend the investigation to culturally mixed teams. To test our hypotheses, we simulate B2B negotiations between a seller team (high-power party) and a solo buyer (low-power party). The empirical results from German-French dyads show that the culture-bound negotiation style of the high-power party dominates the interaction. In contrast, and interestingly, the low-power party neglects its culture-specific negotiation style and instead uses the style of its counterpart. This, in turn, urges low-power parties to carefully choose an appropriate negotiation strategy, and to enhance its power position by increasing its team size.

Keywords: power asymmetry; intercultural business negotiations; collectivism; cultural moderator; negotiation strategies; additive composition model; behavioral adaptation
INTRODUCTION

Transactions in business-to-business (B2B) markets frequently rely on negotiations between the selling and the buying companies (e.g., Campbell, 1985). During negotiations, both parties try to conclude a contract, with central parameters of exchange not having been fixed but instead remaining open to an agreement (Hakansson, 1982). Understanding and mastering the mechanisms and drivers of successful business negotiations thus is essential for B2B companies.

Many of these negotiations take place between partners who have different power levels (Emerson, 1962). Weber (1997, p. 152) defined power as the “probability that one actor within a social relationship will be in a position to carry out his own will despite resistance.” Alderson (1957) explicitly addressed the relevance of negotiations and the pivotal role of power for negotiations. Since then, research has focused its attention on the consequences of such a power asymmetry for the negotiating parties (e.g., Cook & Emerson, 1978; Mannix & Neale, 1993; Walker, 1971). For instance, parties who possess low power regularly engage into negotiations with low aspiration levels and, as a consequence, with low initial offers; this in turn may lead to less favorable negotiation outcomes, compared with the performance of the party with high power (Dwyer & Walker, 1981).

Intercultural negotiations represent an interesting field of application with a situation of power asymmetry. Negotiations between people associated with different cultural backgrounds have become more and more relevant in the past, due to the increasing international trade between companies that operate in B2B markets. Most research suggests a positive link between the cultural trait of collectivism and integrative behavior in intracultural settings (Brett & Okumura, 1998; Gelfand & Dyer, 2000), although in intercultural settings, there may be some level of behavioral adaptation (Adair,Okumura, & Brett, 2001). Yet negotiation research postulates that in general, the use of integrative strategies depends on the bargainer’s individual level of collectivism (Brett & Okumura, 1998; Gelfand & Christakopoulou, 1999; Gelfand & Dyer, 2000).

We argue that in a setting of power asymmetry, the influence of collectivism on the use of integrative strategies is valid only for high-power parties. Instead, low-power parties adapt the negotiation strategies used by the opposing high-power party and thus may disregard their culture-specific negotiation behavior irrespectively of their own level of collectivism, low-power parties use more integrative and less distributive strategies when they face a collectivistic rather than an individualistic high-power party.
Our study empirically examines such a power asymmetry between negotiation partners in an intercultural setting (i.e., the negotiation partners differ with respect to their level of collectivism). We analyze negotiation strategies where either the more collectivistic (French) or the more individualistic (German) culture possesses high power. Our theoretical background will consider power theory (e.g., Cook & Emerson, 1978; Dwyer, 1984; Dwyer & Walker, 1981; Emerson, 1962; Mannix & Neale, 1993; Wolfe & McGinn, 2005; Walker, 1971) and combine it with the phenomenon of behavioral adaptation (Adair et al., 2001), to derive research hypotheses. These hypotheses are subsequently submitted to empirical testing. We conclude by discussing our findings and implications for negotiation practice.

THEORETICAL BACKGROUND

The theoretical considerations will describe basic principles of negotiation strategies, as well as the consequences of power asymmetric dyadic settings for bargaining parties.

Negotiation strategies

Most research distinguishes integrative strategies from distributive strategies, and both are supposed to be important antecedents of negotiation outcomes (e.g., Mannix & Neale, 1993). Integrativeness pertains to problem-solving approaches and concessions, applied by negotiators in order to incorporate the other party’s interests and goals into the decision-making process (Bazerman & Neale, 1992; Clopton, 1984; Mannix & Neale, 1993; Thompson, Peterson, & Brodt, 1996; Wolfe & McGinn, 2005). Integrative strategies are also known as cooperative strategies and relate, for instance, to information exchanges (Adair et al., 2001), cooperative behavior, or package offers (Pruitt, 1981). In contrast, with the application of distributive strategies, companies focus on their own outcome of bargaining, because they perceive negotiations as zero-sum games where parties’ gains are expressed as the expenses of their opponents (Neale & Northeraft, 1991). With reference to Wilken, Cornelißen, Backhaus, & Schmitz (2010), we subdivided the category of distributive strategies into attacking and defending strategies in order to analyze distributive strategies in a more differentiated manner. Attacking strategies reveal aggressive behavioral patterns (Alexander, Schul, & Babakus, 1991) involving coercive statements, threats and commands, so that bargainers fail to seek cooperative agreements and think only of their own benefit (Ganesan, 1993). Defensive strategies go to a similar direction by, for instance, making supportive statements concerning desired agreements (Donohue, 1981), or by turning down offers of the counterpart (Alexander et al., 1991; Donohue, 1981).

Concerning outcomes, research recommends the usage of integrative statements in negotiations with integrative potential where joint profits vary (Bazerman & Neale, 1992; Fisher & Ury, 1981; Mannix & Neale, 1993; Thompson et al., 1996). The fixed-pie view as antecedent for distributive statements decreases information exchange and let parties neglect the finding of mutual interests and joint gains (Hyder, Prietula, & Weingart, 2000; Olekalns & Smith, 2003).

Empirical studies found that preferences towards these negotiation strategies differ across cultures (Wilson, Cai, Campbell, Donohue, & Drake, 1995), a result that was later replicated to intercultural settings (Adair et al., 2001). In the case of such intercultural negotiations, research predicts behavioral adaptation of parties, implying that negotiators use behavioral patterns more common in the culture of the negotiation counterpart and possibly uncommon in their own culture. Additionally, research concludes that intercultural negotiations are characterized as less efficient than negotiations within the same cultural in terms of joint gains (Adair et al., 2001). However, there are still no studies that tackle the
question of how behavioral strategies are applied within power asymmetric settings between two different cultures (e.g., with respect to the parties’ levels of collectivism). Only Adair et al. (2001) and Turner (1991) make the assumption that, under certain circumstances, the relative power structure within dyadic settings could relate to parties’ readiness to adapt their behavior.

Power asymmetry

Dahl (1957, p. 201) introduced to power research the concept of power comparability, “the relative degree of power held by two or more persons”, describing the possibility to rank individuals according to their power possession. Today, marketing research mostly cites Emerson’s (1962) understanding of power which reveals the propensity of a social relationship leading to the other’s dependency. According to Emerson (1962), the relationship between power and dependency is allocated between any actors which could be individuals, groups, and organizations. He defines (1962, p. 32) a mutual dependence between parties when one party’s goals are promoted by initiatives and the behavior of the other party. Wolfe & McGinn (2005, p. 16) posit that not only do economic terms matter when people assess their power position within social relationships; they also consider roles (Olekalns, 1991), individual values (Coleman, 1998), and personalities of social actors (Anderson & Berdahl, 2002).

Linking these power definitions to business negotiations, we posit that when one party depends on the other more than vice versa, the relatively independent party can influence the relatively dependent party in negotiations (Cook & Emerson, 1978; Emerson, 1962). Research refers to this imbalance in dependency as power asymmetry and suggests that the more powerful party dominates and self-controls the direction of the dyadic bargaining (Dwyer & Walker, 1981). Power asymmetry is predominant in marketing channels (Walker, 1971) where B2B negotiations represent a popular communication means to exercise companies’ possession of power (e.g., Dwyer & Walker, 1981; Frazier & Summers, 1984), and where network effects or bilateral dependencies shape companies’ power possession (Hakansson, Ford, Gadde, Snehota, Walsziewski, 2009; Harrison, 2004; Mouzas & Ford, 2003). Generally, negotiations do not reach Pareto-optimal solutions (Bazerman & Neale, 1992; Raiffa, 1982), because parties fail to perceive bargaining as a joint decision process which enables them to reach agreements where both parties’ individual interests are incorporated and their gains are increased (Bazerman & Neale, 1992; Raiffa, 1982). Power asymmetric dyadic settings deteriorate this lack of joint decision processing, as high-power parties may disregard a behavioral mix and tend to use the behavioral strategy which fits best to their own interests and roles, neglecting the interests of the low-power party (Wolfe & McGinn, 2005).

HYPOTHESIS DEVELOPMENT

Acknowledging power cognition effects by bargainers (Mannix & Neale, 1993) and the concept of behavioral adaptation (Adair et al., 2001), which describes behavioral adaptation as a general phenomenon within intercultural negotiations, the less powerful party would adapt the negotiation strategy of the stronger party. Furthermore, we combine this reasoning with the knowledge about the positive link between the cultural trait of collectivism and the use of integrative strategies (Brett & Okumura, 1998; Gelfand & Dyer, 2000). Consequently, we would then predict a high (low) level of integrative (distributive) behavior in a situation of power asymmetry where the more powerful is highly collectivistic. Opposite effects would be likely in the case the more powerful party is weak in collectivism (e.g., Adair et al., 2001; Gelfand & Dyer, 2000). As the stronger party self--controls the negotiation behavior for both
parties due to its dominance (Dwyer & Walker, 1981), and as the less powerful party adapts this behavior used, we deduce:

**H1a** In a negotiation between a high power/collectivistic party and a low power/individualistic party, both parties will engage in more integrative behavior, compared to a negotiation between a high power/individualistic party and a low power/collectivistic party.

**H1b** In a negotiation between a high power/collectivistic party and a low power/individualistic party, both parties will engage in less distributive behavior, compared to a negotiation between a high power/individualistic party and a low power/collectivistic party.

To further investigate the low power party’s contingent behavior on the dominance of the high power party, we ask if the inclusion of a “cultural moderator” into the stronger party will change the negotiation behavior. Companies often include a cultural moderator into their buying or selling teams, a person who shares the same cultural background with the opposing buying company. One reason refers to the finding that generally, intercultural negotiations are perceived as less efficient than negotiations between partners who share the same cultural background. For instance, negotiators adopt higher levels of problem-solving and integrative approaches (Chatman & Flynn, 2001; Chen & Li, 2005), with lower levels of competitive and distributive behaviors (Beersma & Dreu, 1999; Venkatesh, Kohli, & Zaltman, 1995), in an intracultural compared with an intercultural setting. With the inclusion of a cultural moderator on B2B markets, companies would aim to achieve less communication problems and more integrative solutions for both parties during intercultural negotiations.

To determine the negotiation behavior of teams which include a cultural moderator, research proposes the additive composition model (Ahearne et al., 2010). It defines team-level collectivism as the sum of individual team members’ collectivism scores. Consequently, the inclusion of a cultural moderator into the “stronger” party will affect collectivism on the team-level. As a result, an individualistic (collectivistic) cultural moderator will decrease (increase) the team-level collectivism of the stronger party. This, in turn, should lead to a decrease (an increase) in the usage of integrative behavior of that party as we suggest that the weaker party adapts its behavior accordingly. We thus propose:

**H2a** In a negotiation between a high power/collectivistic party and a low power/individualistic party, the inclusion of an individualistic cultural moderator to the high power party will lead to an increase (a decrease) in the use of distributive (integrative) behavior for both parties, compared to the situation without such a cultural moderator.

**H2b** In a negotiation between a high power/individualistic party and a low power-collectivistic party, the inclusion of a collectivistic cultural moderator to the high power party will lead to a decrease (an increase) in the use of distributive (integrative) behavior for both parties, compared to the situation without such a cultural moderator.

**RESEARCH DESIGN**

**Sample.** We recruited 224 students (53.2% female, with gender almost equally distributed across negotiation dyads) from Master’s, MBA, and PhD programs at a European business school that attracts a culturally mixed student body. These students entered 58 dyads that represented intercultural negotiations between more collectivistic (French) and less collectivistic (German) business partners, of which 53 were finally used. This rather small
sample size, however, actually is comparable to that in other studies in this area (e.g., Patton & Balakrishnan, 2010; Wolfe & McGinn, 2005). Additionally, the simulation of negotiations with graduate students is also used for other laboratory designs where power asymmetry was investigated (e.g., Dwyer & Walker, 1981). We assume German and French participants to differ considerably yet not extremely with respect to collectivism; hence, this choice creates rather strict testing conditions for our hypotheses.

Study procedures. The basis for our negotiation simulation was an integrative case study that some of the authors developed. The more powerful party, a selling company, was to negotiate with a less powerful party, a representative of a customer company. We manipulated power by the team size (the parties’ BATNAs – best alternatives to a negotiated agreement – were held constant): Teams exercise influence over an individual; this creates power asymmetry (Thompson et al., 1996). Moreover, a group of three persons have access to more information and expert resources than a solo-negotiator which adds to their advantage over an individual (Gruenfeld et al., 1996; Sally & O’Connor, 2004). Thus, the seller team (the powerful party) consisted of three persons (in some cases also four), whereas a single negotiator represented the buyer (less powerful party). The weaker party’s nationality differed from the nationality that dominated the stronger party, which established the intercultural setting. For example, some German buyers (G) negotiated with a purely French seller team (FFF), whereas other German buyers (G) faced a seller team of two French and one German member (FFG). This approach enabled us to assign each seller team clearly to one dominant culture and characterize its composition as either monocultural (e.g., three French, FFF) or multicultural (e.g., two French and one German, FFG). Thus we directly controlled nationality (surface-level culture) but hoped to infuse variance in terms of collectivism (deep-level culture). For reasons of external validity, we informed each party about its counterpart’s nationality or nationalities.

The object of the negotiation was special purpose machinery that the customer organization needed to manufacture its products. A special facility would be tailored to meet the customer’s specific needs, so the seller could not sell it easily to other customers. Participants needed to negotiate not only the price of the facility but also its features, such as schooling alternatives, financing terms, length of warranty, assembly options, and maintenance contracts. A contract closed only if they reached agreement on all six issues.

Basic information such as the general description of the business setting was handed over to all participants (same for both groups), while additional role-specific material remained undisclosed to the negotiation counterpart and provided each party with arguments that they could employ during negotiation. The material also contained benefit (seller) and cost (buyer) point information with respect to the different options for each negotiation issue. These points reflected each party’s specific interests and priorities, such that the benefit points for the seller and cost points for the buyer forced the parties to exhibit different interests and priorities on some issues. We thereby established an integrative setting.

Participants were incentivized to optimize their negotiation outcome by offering flight vouchers (worth 50€) to members of the eight dyads that achieved the best outcomes in terms of individual and joint profit (e.g., Olekalns, Smith, & Walsh, 1996).

The negotiations took place through Internet chats, though the seller team met in a face-to-face setting (as in Bryant, Hunton, & Stone, 2004). Such electronically mediated negotiations systematically have been gaining prominence in real market applications (Rangaswamy & Shell, 1997). They not only enable more economically productive negotiation processes (Kersten & Noronha, 1999; Rangaswamy & Shell, 1997) but also grant researchers greater opportunities to collect detailed information about the interaction.
However, electronic negotiations also may change the way people interact, because electronic media generally cannot effectively transmit personal cues (e.g., Tan, Wei, Watson, & Walczuch, 1998), which might be especially relevant for high context cultures, such as China and France, that tend to prefer indirect communication (Graham, 1993). Because our participants were students, we can assume relatively high familiarity with electronic media (particularly the Internet).

Manipulation checks. We checked whether nationality (German vs. French) was appropriate to manipulate collectivism. Collectivism was assessed through an online questionnaire after negotiation, and we used the scale proposed by House et al. (2004). Collectivism was measured individually, whereas our hypotheses relate to teams (the more powerful party), so we derived the mean scores for collectivism on the selling team level. The French teams scored significantly higher on the collectivism measure than the German selling teams (4.52 vs. 3.99; \( p < .05; \eta = .46 \)). When a seller team was equipped with a German (French) cultural moderator, the level of collectivism decreased from 4.52 to 4.11 (increased from 3.99 to 4.26), that is, in the intended directions. The second effect is statistically insignificant, but the effect size (an additional statistical criterion to circumvent the problem of statistical insignificance for small sample sizes; Cohen, 1992) is medium for both cases (\( \eta = .34 \) and .30, respectively). Thus, our rationale behind both hypotheses is well justified.

Measures of negotiation behavior. The protocols (log-files) that contain the exact negotiation interactions were used to measure negotiation behavior. We used the coding scheme described by Alexander et al. (1991). In using relative measures, we counted how often a unit uttered by a member of the selling team fell into one of the three categories (distributive behavior comprised the subcategories “attacking” and “defending”), then divided this number by the total units uttered by that team during the negotiation (Weingart et al., 2004). Two coders, unaware of the research purpose, independently coded the negotiation protocols. To determine the reliability of the coding, approximately 15% of the total data was double-coded; this procedure yielded very good results (\( \kappa > .95 \) for all categories).

EMPIRICAL RESULTS

Table 1 summarizes our results of the ANOVAs. Significance level and effect size both served as statistical criteria in testing our hypotheses. To test H1, we focus on dyads without cultural moderator (CM) in the seller teams, and compare the means displayed in columns (1) and (2). All comparisons point toward the hypothesized direction, and we observe at least small effect sizes. Particularly interesting is the buyer’s adaptation to the cultural-specific behavior of the powerful seller team with respect to integrating and attacking (\( p < .05 \) each). To test H2a, we compare columns (1) and (3) and again find support for the hypothesized effects (small to medium effect sizes), except for the seller’s team attacking and the buyer’s defending behavior (no significant differences and not even small effect sizes). Concerning H2b, we compare columns (2) and (4). All comparisons point into the predicted direction, although the effect on buyer’s attacking behavior is negligible. Particularly strong effects appear for the seller’s integrative (increase with cultural moderator) and defending behavior (decrease with cultural moderator).
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<td>Seller team without CM</td>
<td>Seller team with CM</td>
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<td>High COLL</td>
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<td>Integrative</td>
<td>58.64</td>
<td>51.30*</td>
<td>54.29**</td>
<td>64.52***</td>
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<td>Distributive (attacking)</td>
<td>28.15</td>
<td>30.51 s</td>
<td>27.59</td>
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<td>Distributive (defending)</td>
<td>13.22</td>
<td>18.20 m</td>
<td>18.12 s</td>
<td>9.27***</td>
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<td>Solo buyer</td>
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<td>Integrative</td>
<td>58.43</td>
<td>47.10**</td>
<td>50.38**</td>
<td>50.57 s</td>
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<td>Distributive (attacking)</td>
<td>24.10</td>
<td>32.90***</td>
<td>32.37**</td>
<td>32.00</td>
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<td>Distributive (defending)</td>
<td>17.57</td>
<td>19.80 s</td>
<td>17.38</td>
<td>17.64 s</td>
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Table 1: Use of negotiation strategies (% of all utterances during negotiation)
* p<.1; ** p<.05; *** p<.01; s, m, b=small, medium, big effect; COLL=collectivism

DISCUSSION

Altogether, our results suggest that the weaker party follows the negotiation behavior used by the more powerful party during the negotiation. The cultural trait of the stronger party determines the negotiation behavior of both parties. Thus, if companies can affect the power position of their negotiators just by adding participants to the team and varying their intercultural composition, then they have an easy-to-implement, relatively inexpensive tactic for influencing process-related variables such as the use of negotiation strategies.

Our findings offer several aspects for discussions on the theoretical and practical level. From a theoretical perspective, intercultural negotiations could be an interesting setting to test power theory in more detail (e.g., Dwyer & Walker, 1981). The combination of power and cultural background of the negotiators demonstrate their weighty influence on negotiation strategies. By using the additive composition model and considering different compositions of a high power party (with or without cultural moderators), it is possible to make more differentiated predictions of negotiation behavior. Thus, our findings add knowledge on the process (integrative and distributive strategies) of negotiations with power asymmetry (e.g., Mannix & Neale, 1993; Sondak & Bazerman, 1991; Wolfe & McGinn, 2005).

Furthermore, we extend negotiation research by showing that the use of integrative negotiation strategies is driven by the level of collectivism of the high-power party. For the low-power party, our intercultural setting (negotiations between parties with different levels of collectivism) produces a “reversed collectivism effect”. For example, low-power parties with an individualistic background use more (and not less) integrative strategies, compared with low-power parties with a collectivistic background.

From a practical angle, our study should help managers prepare for negotiations with power asymmetry (particularly in intercultural business negotiations). A party’s power highly influences the behavioral pattern, therefore the use of the negotiation strategy. Parties who have high power are able to push their preferred negotiation style through, in an attempt to reach their negotiation goals. With the inclusion of people with a cultural background other than those of the remaining negotiation team members, negotiators affect the negotiation behavior for both parties. In contrast, parties with low power should recognize their
unfavorable bargaining situation. However, our findings suggest the possibility to alter even a negotiator’s low power situation: Low power parties could enhance their unfavorable power situation by adding participants within their team. Moreover, these parties could alter the team composition with respect to the cultural background of the team members if the opposing party has a different cultural background. To complement these findings, one of the next steps will be to extend our investigation to negotiation outcome measures.

We also acknowledge some limitations that additional studies could address to develop this field of inquiry. First, our manipulation of power solely related to the number of people involved on either side. Interesting avenues for future research include:

- A more systematic analysis of team size (e.g., teams that are “too big” could be less effective, perhaps even less powerful, than teams of three people);
- A comparison with balanced negotiation dyads (solo negotiators on both sides; teams on both sides); and particularly
- A more comprehensive manipulation of power (e.g., through a different BATNA levels) that allows for investigations of combined effects of (the existence of good) outside options and team size, two factors that both represent sources of power.

A second limitation relates to our decision to manipulate collectivism as a deep-level construct. Although we believe the distinction between German and French negotiators on the surface level was meaningful, in the sense that we observed significant differences in behavioral patterns, other cultures that differ much more with respect to collectivism (e.g., Asian cultures) could be interesting objects of study as well. Consequently, we call for extensions of our study to other cultures, to draw a more complete picture of how collectivism as a cultural trait influences negotiation behavior. A more differentiated approach to assessing differences in collectivism across countries also might consider the recent debate on collectivism measures (for a collection of relevant articles, see Journal of International Business Studies, Vol. 41 [2010], Issue 8).

Moreover, extensions could consider cultural traits other than collectivism. For example, power distance might provide a meaningful predictor of negotiation behavior, and the contribution of a cultural moderator might depend on whether this person is likely to be overruled by other team members or if he or she can significantly influence the decision-making process. Such research would provide a more differentiated picture of the additive composition model, which in turn might lead to a different basis for hypotheses about the effects of cultural background on negotiation behavior. In addition, the simultaneous consideration of several cultural traits (collectivism and power distance) might induce inconclusive or even inconsistent predictions; it would be interesting to determine which “dominant” cultural trait is most likely to predict negotiation behavior.

Finally, we adopted a single-transaction perspective, though Patton and Balakrishnan (2010) show that negotiation behavior differs substantially depending on whether partners expect future interactions or not. Negotiators from more collectivistic cultures tend to be more prone to engage in business relationships than negotiators from individualistic cultures, such that it would be interesting to analyze the interplay of intercultural team composition and the distinction between expectations of future interaction and no such expectations.

Our study supports the notion that the power and cultural background of the negotiating parties and team composition issues are not independent and should be considered simultaneously. Still, this finding should be substantiated in further studies of intercultural business negotiations. The preceding ideas should help encourage further development in this research area.
REFERENCES


