

# Adapting the MGA for Negotiating with South Korean Counterparts

## Background

South Korea, once a war-torn economy, lifted itself in the past half century to become a vibrant hub of global commerce and trade, joining the world's exclusive 'trillion-dollar-economy club' in 2013. As the world's sixth-largest exporter in 2015, South Korea is a dynamic, technologically advanced and export-oriented economy, which has a competitive advantage in electronics, shipbuilding, automotive, petrochemicals, metal and machinery products. Now the country is known as a bellwether for global trade.

In 2014, the number of foreign businesses in Korea amounted to 11,267. In 2015, the Korean Trade-Investment Promotion Agency (KOTRA) helped Korean businesses and organizations in 83 countries worldwide. South Korea has a highly educated workforce and increasing numbers of young people are studying abroad. For example, during 2013–2014, 68,000 Korean students studied in the US, accounting for 7.7% of the foreign students in the US, following Chinese students (31%) and Indian students (11.6%).

South Korea has been actively pursuing Free Trade Agreements (FTAs) with its key trading partners, such as Chile, Singapore, ASEAN, India, Peru, the EU and the US. In particular, on 12 December 2014, an FTA between South Korea and Australia came into force, which significantly improves market access in goods and services for businesses in both countries.

## Cultural Influences on Korean Negotiators

Many international business studies use cross-cultural typologies to represent Asian or East Asian culture in their research on culture and negotiation. For example, 'high-context' and 'collective' are the most well known claims about East Asian culture. People in such cultures rely on indirect cues and implicit communications to send messages embedded in words. Also, they are less confrontational and more comfortable with the status quo than people from low-context cultures, because they need to save face for themselves and others. Thus, in East Asia, candor is almost always considered rude because honesty is trumped by the need to save face.

## Collectivism and Individualism

People in collectivist cultures are more comfortable in groups, and individual interests and goals come second to the goals and interests of the group. In a business setting, a commitment to one's company is recognised by prioritizing work at the expense of personal time. Loyalty in a collectivist culture is paramount and often trumps other societal rules and regulations. In such cultures, the society promotes strong relationships where everyone is responsible for fellow group members.

For example, South Koreans use the word *oo-ri* (in English, 'our') in their expression of 'my'. When a South Korean says to someone, '*oo-ri na-ra*', '*oo-ri jib*', and '*oo-ri hyung*', translated in English as 'our country', 'our house', and 'our brother', he is actually referring to his own country, his own house, and his own brother. Additionally, in Korean, the term *songsil* is often used to show that all employees are willing to sacrifice personal interests to the interests of the company.

Although South Korea has been found to have a high-context and collectivist culture like those of other East Asians, Korean culture is distinct in several ways.

In one study comparing Japanese and Korean negotiators, Korean managers showed a strong sense of individualism and were three times as likely as Japanese counterparts to say 'no'. They were also more likely to interrupt and issue commands during the negotiation. The coexistence of Eastern collectivism and Western individualism in Korea may be explained by the fact that South Korea has undergone rapid and vast economic, social and political changes.

## Emotion and Reason

Another distinctive feature of Korean business relationships is emotion-based interpersonal engagement. This value of respect for another's emotional state seems to allow Koreans to display more individualistic tendencies than citizens of other collectivist cultures. At times, especially in the heat of a discussion or negotiation, they may be very emotional and outspoken. Thus, while East Asians are less egocentric than Westerners, South Korean business negotiators are more likely to endorse self-expression, and to take opportunities to promote one's *kibun* (an emotional state). Conversely, they may be less likely to employ distributive tactics, which could possibly hurt the counterpart's feelings, than Chinese and Japanese negotiators.

Koreans are also more illogical and unpredictable than their Japanese and Chinese counterparts. They were more often perceived as relying on intuitive knowledge or 'gut feeling' than logical analysis. Therefore, in order to communicate effectively with the Koreans, it is critical to use *nunchi* or 'face reading'. *Nunchi* refers to an ability to silently understand what the other party is thinking by reading nonverbal cues.

Koreans seldom hide their feelings in public and therefore are more direct in addressing issues that Japanese or Chinese negotiators might consider too sensitive. They can be very aggressive and unyielding if you do not appreciate their bargaining position. On the other hand, if you are willing to show a certain amount of sympathy and consideration to their request, even if it may not be acceptable, they often become very flexible.

In Korean business culture, virtually anything can be resolved through friendly debate, which leads some Western executives to believe that their Korean counterparts are irrational. Western executives often do not understand how Korean managers could be adamant about trivial matters while being remarkably flexible on major ones. So paying attention to emotional mood and emotional needs can be useful in negotiations with Korean partners.

## Delay, Deception and 'No Bad News'

However, not all the evidence supports the idea of highly flexible or sincere negotiation styles in Korea. In another study, US managers described Korean managers as tenacious negotiators who barely yield at the negotiating table. The same study cited Korean managers as being perceived as more flexible and adaptable to new circumstances, but because Korean negotiators were perceived to change their positions more frequently than either Japanese or Chinese negotiators, their American counterparts sometimes also viewed them as more insincere. In a survey of 182 Korean managers, some reported that they were willing to use 'aggressive tactics' in manipulating opponent's networks. Korean negotiators are willing to use tactics that Westerners might consider unethical (inducing discomfort, use of competitive bargaining, bluffing or avoidance) if they believe such tactics can be effective.

More traditional Korean negotiators may use stalling as a tactic to gain more concessions from Western negotiators who are more time-conscious. The use of stalling may stem from a perception that Westerners are generally more eager than Koreans to reach closure within a relatively short period of time. By stalling, the Korean partner may hope to use mounting time pressure to gain larger concessions.

Koreans can be reluctant to relay bad news. In Korean negotiations, bad news will often not be delivered until the late afternoon, when it is too late to do anything. This suggests that Australian

negotiators should listen for hints from their Korean partner about business difficulties and anticipate that problems may be communicated at the last minute so that the conversation is not focused on them.

All things considered, negotiations with Korean partners may be slow and protracted. Relationship building, information gathering, bargaining and decision making all take considerable time. However, evidence suggests that Korean teams may be faster at reaching decisions than their Japanese and Chinese counterparts. There are several possible explanations. First, Korean negotiating teams are typically smaller than Japanese and Chinese teams. Second, decision making in Korean companies is typically highly centralised in the hands of top management, who can ratify an agreement quickly. Third, with the pace of change in recent years, Korean managers have become increasingly socialised to make rapid decisions in order to compete in a global economy.

### Personal Relationships versus Impersonal Agreements

*Kwankye*, which refers to connections and personal relationships (similar to *guanxi* in China), plays a particularly important role in Korea. The outcome of a negotiation with Koreans can be affected more deeply by personal considerations than by business considerations, which can lead to practices that Westerners might consider questionable. Because of the importance of social connections, it is common to see a great deal of socializing in the earlier stages of a negotiation. While bribing managers is illegal in Korea, the practice of gift giving is still prevalent, although since the recent financial crisis, the gifts tend to be less lavish. Although the line between ethical and unethical behavior in gift giving is fuzzy, it is perceived to exist.

Korean managers sign contracts with foreign business partners to formally initiate a relationship; a contract is essentially a symbol of this newly initiated relationship. After signing a contract, everything may be subject to change and renegotiation. Koreans do not regard the provisions of a contract as sacrosanct or binding; rather, contracts are organic documents that can change as conditions or interests change or evolve. Australian companies complain that a written contract does not seem to mean much in the Korean context because renegotiations of provisions are pursued so often; but it would be more accurate to view the contract as a general agreement whose provisions are less important than the relational commitment it signifies.

In the next section, we suggest practical issues drawn from literature review and interviews that bear on the four stages of the MGA and raise issues relevant to adapting this approach when negotiating with Korean business partners.

## Preparation

### Define One's Team

Korean negotiating teams might be smaller than their Japanese or Chinese counterparts, but they do adhere to a hierarchical structure. Koreans are extremely sensitive about titles and status, and Australians dealing with senior Korean officials should make sure that their own teams include senior managers of comparable status. Senior Korean officials will not be comfortable dealing with a junior member of an Australian negotiating team, even one with great expertise.

### Make Social Conversation

While South Korean negotiators are more straightforward than the Japanese, South Korea nonetheless has a high-context culture. Korean negotiators believe that their relationship with counterparts directly affects substantive negotiations. By acquiring detailed information about the histories and preferences of members of the opposing team, the negotiating team not only hopes to

understand something about BATNAs and interests, but also hopes to better establish relations at the outset of the negotiation. For example, having discovered the religious affiliation of a negotiating partner, a Korean negotiator may open a conversation on religious matters to find common ground and enhance the relationship. Australian companies seeking to be well prepared for negotiations should consider working with a local consultant who knows the business culture, has some direct experience with the Korean counterpart and can advise on appropriate team membership and roles.

Korean managers value *kwankye* (connections and personal relationships). It is important to understand that introductions to possible business contacts may be based less on professional expertise than on social obligations. Therefore, efforts should be made, sometimes through third parties, to determine the reasons for an introduction. The opening of negotiations is also important and is designed to let parties get to know one another and build a relationship before the negotiation begins.

### Build Positive Working Relationships

Modesty early in a relationship is also important. During the relationship-building phase, a reserved and modest approach is likely to appeal to Korean sensibilities and to pave the way for more effective negotiations. Boasting about one's company or achievements is not recommended. Focusing instead on the other person is more likely to ease tensions. The tradition of giving small gifts is still a method used to build relationships in South Korea. A gift should reflect the recipient's tastes; tastes are observed during the initial relationship-building rituals.

Negotiations in South Korea tend to take longer than negotiations held in Australia. Regular face-to-face negotiations and frequent social meetings with Korean partners can lead a Western partner to view his/her Korean business partner as something like a close friend. When this relationship has been established, exchanging information and proposing options for mutual gain becomes easier.

## Creating Value

### Encourage Candor

Notwithstanding Korea's high-context culture, several executives we interviewed asserted that South Korean negotiators tend to be more straightforward and forthright than their Japanese or Chinese counterparts. Australian negotiators can encourage such directness or frankness and use it to explore interests and expedite the negotiation process. Acknowledging and voicing appreciation for a South Korean negotiator's candor from the outset may prevent him or her from hiding bad news or problematic issues later.

### Manage Aggressive Tactics

South Korea has a high risk-avoidance culture in which individuals may use traditional competitive bargaining behaviors (exaggerating opening demands, asserting false bottom lines, stalling etc.). As noted earlier, experimental data suggest that although Korean managers endorse stringent ethical practices, they will use aggressive tactics during a negotiation if they believe such behaviors will be effective. Negotiations with South Korean partners may be more difficult than negotiations with other East Asian counterparts. More than most other Asians, South Koreans are able to take significant risks once they have carefully assessed a proposal or situation.

## Watch Proposals Evolve

It can be particularly difficult for low-context negotiators to detect a high-context negotiator's meaningful indirect behaviors. In a high-context culture, information about interests is contained not only in the words of a particular offer, but also in the way that the proposed options change over time. The high-context negotiator is more likely to infer interests and priorities from the history of prior offers, rather than from the words that accompany the offer at hand.

Options that change over time may reflect greater flexibility, whereas options that do not may reflect stronger underlying interests. Be mindful as well that brainstorming might be confusing to Korean counterparts unless such a process has been explicitly discussed and understood as helpful.

## Take a Long-Term Perspective and Concentrate on Building a Strong Business Relationship

Koreans expect to establish strong bonds prior to closing any deals. Consequently, proceed with serious business discussions only after your counterparts have become comfortable with you. This may require significant time. Business relationships in Korea exist between individuals or groups of people, not between companies.

## Use Social Events

Business meals and entertainment, particularly dinners, karaoke singing 'contests', and evening events that may include heavy alcohol consumption are very important, as they help advance the vital process of building strong relationships. Your Korean counterparts may use them as opportunities to convey important messages or resolve disputes. The primary purpose of the first meetings is to get to know each other, start building relationships and gather information about the other side's areas of interest, goals and weak points for the upcoming negotiation.

## Utilise Koreans' Polychronic Work Style

Koreans generally employ a polychronic work style. They are used to pursuing multiple actions and goals in parallel. When negotiating, they often take a holistic approach and may jump back and forth between topics rather than addressing them in sequential order. In multi-item negotiations, people may bargain and haggle over several aspects in parallel. It is not unusual for them to reopen a discussion over items that had already been agreed upon. In addition, they may take phone calls or interrupt meetings at critical points in a negotiation. In multi-issue negotiations, polychronic style may provide an opportunity to create integrative packages rather than to make deals in sequential order.

# Distributing Value

## Issue Resolution

Korean negotiators tend to value the general more than the specific. Insisting that a particular issue be resolved before negotiations proceed is likely to be unproductive. It may also give a misleading impression of narrow-mindedness to Korean negotiators. Discussing possible options and then 'bundling' them into packages toward the end of the negotiation process is likely to create more value, by allowing for 'trade-offs' across issues that are valued differently by the parties. It can also help to avoid the appearance of bad faith or stubbornness in the bargaining process.

## Reading the Room

As noted above, Koreans may at times seem irrational, becoming adamant over trivial matters while glossing over major ones. One explanation may be that Koreans are emotionally expressive people, influenced by *kibun*, the mood, at the time of negotiation. It makes sense to use *nunchi* (face reading) to assess *kibun*. If there appears to be poor *kibun*, it may be a good time to break for the day or to delay conversation about a difficult issue. It may also make sense to reestablish a relational focus, making sure that counterparts feel comfortable, well-fed, personally valued, and socially connected. Suspending criticism or evaluative comments can help preserve or reestablish *kibun*. South Koreans score toward the *nurturing* end of Hofstede's (2005) masculinity/assertiveness scale (39) rather than at the *assertive* end where the Australians tend to fall (61). Showing a certain amount of sympathy and consideration to Korean partners' claims, even if the claims are not acceptable, can lead to greater flexibility in the ensuing discussion.

## Formal Authority and Communication through the Hierarchy

Decision making in Korean companies is typically highly centralised in the hands of top management. Members of a Korean negotiating team often have to defer the authority to make major decisions to members of senior management. Moreover, communication between levels may be limited and even discouraged in some companies. Importantly, the interests of the senior leaders may differ in some ways from the interests of the negotiators representing them.

Therefore, it is important to allocate time to explore the interests of decision makers in Korean companies and to recognise that convincing the members of a negotiating team does not ensure that the actual decision makers will agree on a proposal for distributing value. Holding informal 'relationship-building' meetings between leaders and equivalent counterparts can help break impasses and uncover interests that may not have been addressed at official negotiations. In addition, it makes sense to allocate more time than usual for decisions to be ratified. The process of finalizing agreements can take significantly longer than the negotiations at the table. Australian negotiators should be aware of this dynamic and factor in additional time.

## Help Them Save Face

If you have to bring up an unpleasant topic with a Korean counterpart, never do so in public and always convey your message in ways that maintain the other's self-respect. Keep your cool and never show openly that you are upset. Causing embarrassment or loss of composure, even unintentionally, can seriously harm business negotiations. Should a dispute arise at any stage of a negotiation, you might be able to reach resolution through emphasizing personal relationships and reestablishing trust. It may be effective to have side discussions on a one-on-one basis with the most influential person on the Korean team.

## Beware of Stalling Tactics

If Korean negotiators learn that you are working against a deadline, they may exploit this knowledge to increase the pressure on you to make concessions. Near the end of a negotiation, they may suddenly request last-minute concessions and 'compromises'. In extreme cases, they may try to renegotiate the whole deal on the final day of your visit. It is important never to take such techniques personally and to avoid open conflict.

## Follow Through

### Contracts

As previously noted, in Korea, a written contract is generally not considered a binding legal document; it more importantly signifies the official start of the relationship-building process. When conditions change, Koreans will expect to revisit specific conditions. Creating contingent agreements ('if . . . then . . . ' provisions) can help to avoid some renegotiation, but if the relationship is critical, one must expect to spend time reworking the contract. It is important to realise that Koreans have a very different view of written agreements and contracts from the one most Westerners have. In the traditional Korean view, agreements are just snapshots in time and contracts are similar in role to historic documents: they reflect no more than the agreement that existed at the time they were written up and signed. Written contracts tend to be lengthy and often spell out detailed terms and conditions for the core agreements as well as for many eventualities. Nevertheless, writing up and signing the contract is a formality. Koreans believe that the primary strength of an agreement lies in the partners' commitment rather than in its written documentation.

### Third Parties

Third parties can play an important informal role in helping resolve business disputes. It is wise to identify potential third parties who have connections to, and influence with, the decision makers of a Korean company. Third parties have such connections through school, friends or families. When seeking to involve a third party, remember that his or her involvement should not have a negative impact on his or her own professional network.

## Conclusion

It is important for Western negotiators to cultivate relations with South Korean counterparts and to expect that negotiations will be less time efficient and agenda driven than in Western countries. Negotiators should expect to spend time monitoring agreements carefully and encouraging and rewarding candor. Contracts should be treated as living documents that embody a relational commitment rather than an immutable set of provisions.

It is important also to remember that Korea is changing. Since 2002, the Korean government has advertised South Korea to the world as 'Dynamic Korea' because almost everything is changing quickly in Korean society. Old and new coexist during this current transitional period. For example, Korean companies are introducing performance-based pay systems rather than the *hobong* system (which compensates age and seniority using different standards for men and women). Companies' traditional paternalistic approach is also under pressure, and the loyalty structure of many Korean companies is changing. The practice of providing entertainment during business negotiations is disappearing.

For the most part, Koreans seem comfortable with this change. They are realizing some of the benefits of a more individualised and less collectivistic society, especially when they can spend time with their family or friends after business hours instead of socializing among colleagues. Australian negotiators should be mindful not only of traditions but also of transitions. As Korean companies globalise, Korean negotiators may be more tolerant of differences in negotiation styles than in the past. More leaders in Korea have MBAs from Western universities and are already Westernised. Again, it is important to seek information on one's counterparts prior to a negotiation. As noted in our introduction, relying on cultural stereotypes is more perilous today than ever before.

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