Competitive Paper submitted for the 19th IMP Conference, Lugano, CH

Negotiating in Networks: Unleashing the Power of Options

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ABSTRACT

It has been the prevalent view of researchers that negotiation is a dyadic, interpersonal process of bargaining. Game theorists, economists, psychologists and management researchers have been preoccupied with the analysis of the process of conducting negotiations. With deep roots in game theory and decision analysis, research into negotiations has undergone significant developments over the past three decades. The search for optimal, rational and prescriptive solutions for deal making was broadened to encompass the effect of dynamic social and personal factors such as preconceptions, negotiation styles and appropriate behaviour. This paper moves beyond the tradition of examining dyadic processes to investigate negotiations in networks of organisations. Adopting this alternate perspective provides a new intellectual lens that allows us to unleash the power of *options* inherent in networks of organisations. The network view helps us understand negotiation while negotiation helps us understand networks. Instead of providing prescriptions for deal making, we draw from the research experience of the IMP group to develop a description that explores and explains some aspects of the practice of inter-organisational negotiations.

INTRODUCTION

Negotiation is most commonly seen as a dyadic, interpersonal process of bargaining. As a research area, it has attracted attention from economists, psychologists and management researchers. With deep roots in game theory and decision analysis, research into negotiations has undergone some significant developments over the past three decades. The search for optimal, rational and prescriptive solutions for effective negotiation and deal making was broadened to encompass the effect of dynamic social and personal factors such as preconceptions, negotiation styles and appropriate behaviour. Instead of providing prescriptions, we build on from the network approach to develop a conceptualisation that describes and explains the practice of inter-organisational negotiations.

Taking a network perspective on the study of negotiations, we emphasise three important aspects. First, the networks help us understand negotiations. Going beyond the tradition of isolated examination of dyadic, interpersonal processes of bargaining, we move on to examine the impact of these negotiations on other negotiations in the network. Second, adopting a network view provides a new intellectual lens that allows us to see the constraints but also the power of options inherent in networks of organisations. Third, negotiation helps us understand networks. Instead of describing in general and abstract terms the "interaction" among network actors, we attempt to operationalise current network theory by focusing on the practice of negotiations. Thus, negotiation is seen a process by which interdependent organisations, with different backgrounds and potentials and different interests and goals, seek to do better through jointly agreed action.

Negotiating in networks is becoming increasingly a way of life for managers in all kinds of organisations. The managers' recognition of the importance of negotiating emanates from two important realisations. First, managers realise that their organisations are not free, independent or immune to the initiatives of other organisations. They are susceptible to changes in their surrounding network and have to negotiate with other organisations to protect and follow their own interests. Secondly, managers' command and authority does not necessarily ensure the desired co-operation and commitment of other actors in their network. Diverse backgrounds, different perceptions, globalisation, cross-cultural encounters, interdisciplinary teams and continuous changes of contextual circumstances put managers under continuous pressure and provide an impetus for adopting a new way of acting. This new way of acting is characterised by ubiquitous negotiation to unleash the power of existent but often hidden options inherent in networks of organisations. Even though negotiation is inescapable in most managers' work, traditional thinking remains sceptical and resistant to the role of negotiation. The scepticism and resistance can come from a narrow conception of negotiation. The word negotiation itself connotes images of hagglers that bargain to arrive at outcomes. We consider "negotiation" much more expansively. Negotiation involves the process of arriving at jointly decided outcomes, but also the outcomes themselves. A negotiated outcome or in other words a "negotiated deal" may effectively bind the firms and critically affect other negotiations in a business network.

The present paper provides a theoretical background organised in three areas - networks, negotiations and options. It introduces a model of negotiating in networks and describes the applicability of the model in an exemplary case in manufacturer-retailer networks and finalises with conclusions and implications.

NETWORKS, NEGOTIATIONS AND OPTIONS

Negotiation Approach

With deep roots in game theory and decision analysis (Neumann and Morgenstern, 1944; Nash, 1950; Luce and Raifa, 1957; Roth, 1985) and the recognition that there is no shortage of disputes, Raifa (1982) blends in his classic work the practical side of negotiation with mathematical analyses. His significant contribution provides a solid ground for a new generation of negotiation researchers. Lax and Sebenius (1986) are two representatives of this new generation of negotiation researchers. Their work is an attempt to construct an eclectic theory of negotiation and provide prescriptions to the involved parties. Lax and Sebenius (2002) criticise the prevalent view that negotiation is a process that involves a set of interpersonal dynamics and tactics as a "one-dimensional approach. Instead they propose a "three-dimensional" approach, where a second dimension, the so-called "deal-crafting" focuses on the substance of the effort to create joint value. The third dimension involves entrepreneurial moves in which negotiators change the game advantageously. Lax and Sebenius (2001, 2002) emphasise the relentless focus on differences as opposed to similarities. Lax and Sebenius (1986, 1991) and Sebenius (1992) consider differences in interests and perceptions as the raw materials of the negotiation and the means to create joint gains. They distinguish between underlying interests, issues brought on the negotiation table and the positions taken, and they claim that actors' alternatives to negotiated agreement play a large role in shaping negotiations and that changes in the actors' alternatives to negotiation may have a greater effect on the outcome than bargaining tactics used during negotiations. Lax and Sebenius (1991) deviate from game-theoretic approaches, which search for grand solutions and equilibrium. They point out that actors' alternatives change during the course of the negotiation. Situational changes such as the availability of new information or the culmination of ongoing processes can change the range of possible acceptable settlements within negotiations. As actors' alternatives define the limits to negotiation, Lax and Sebenius

(1991, p.98) prescribe that “resources such as effort, time or money should go toward affecting alternatives or generating new ones until the expected improvement in the value of the negotiated outcome from expending additional resources just equals the cost of doing so” .

The deviation from the game-theoretical approaches in negotiations was also accompanied by some further advances in psychology. Investigating the strategy of conflict, Schelling (1960) criticized traditional game theorists for failing to recognise that players actually achieve much better coordination and co-operation when they are able to rely upon focal points. He defines focal points as intuitively perceived mutual expectations, shared appreciations, preoccupations, obsessions, and sensitivities to suggestions. Building on research in psychology, the search for optimal and rational solutions for value creation was broadened in the last three decades to encompass the effect of dynamic social and personal factors such as perceptions, negotiation styles and appropriate behaviour (Bazerman, et al. 2000; Thomson, 2001) or preconceptions and errors that people usually make when forming judgments and decisions (Bazermann and Neale, 1992). Accordingly, negotiators tend to assess one side as more competitive and less trustworthy than the other side actually is, thus negotiators consistently ignore opportunities for wise tradeoffs (Bazerman et al., 2001). Following this line of thought, hostage negotiator Misino (2002) argues that helping the other party to save face might be one of the most important things you learn as a negotiator. Describing the tension between co-operative moves to create value and competitive moves to claim value, Allred (2000) makes the argument that negotiators are prone to over-attributing another party’s behaviour to something about the person and under-attributing that behaviour to contextual circumstances. Since many negotiations collapse over differences in judgments about how the future will unfold, Bazerman (1999) suggests that companies need to realize that it is often better to bet on uncertain events by using contingent contracts than to argue about them. The main benefit that is offered by a contingent contract is that it motivates organisations to perform at or above contractually agreed levels.

Negotiation theory advanced our knowledge about the effect of legal, social and cultural factors on interpersonal negotiation processes. Notwithstanding its significant contribution, existing negotiation theory builds on the assumption of the firm's completeness defined as the ability of the firm to craft a negotiation plan that deploys its own resources and capabilities and relentlessly focuses on dyadic, interpersonal processes. There is a literature of negotiation with multiple players (Bazerman et al., 2001), which acknowledges that different parties are likely to have different interests and that finding ways to solve conflicts among parties can become a complex problem. However, existing negotiation theory treats every negotiation with multiple players as a decision-making problem of one single situation. It fails to recognise that firms do not conduct multilateral negotiations i.e. everyone negotiates "in the same room". Instead, firms conduct simultaneous dyadic negotiations in a web of business relationships and their dyadic negotiations have impact on other dyadic negotiations. Moreover, negotiation theory fails to recognise that networks of business relationships constrain the negotiation of actors and, in turn, are shaped by them. Negotiation theory has not recognised that there is a dialectic relation where networks provide both the impetus for negotiation and resistance to actors' negotiations and where networks are also constructed and altered as a result of the organisations' actions.

Network Approach

The existence of negotiation in networks of business relationships is neither ignored nor denied by other network researchers. A lot of network theory silently assumes that negotiation processes are inherent in a wide range of interactions. In order to understand dyadic interactions, network researchers pay greater attention to the embedded network context

(Anderson, et al. 1994). The reason for taking a “network-perspective” is very simple. A company’s environment is not a homogeneous and faceless topology; instead a company’s environment is a network of other organisations. Organisations exist in an “interacted environment” (Ford et al., 1986) in which they are continuously involved in interaction with other organisations. In such “interacted environment”, organisations negotiate with other organisations and experiment with new variations of actions within relevant time-space (Ertel, 1999; Hedaa and Törnnoos, 2001) in order to influence and adapt to each other’s future activities and resources.

The notion that organisations exist in an “interacted environment”, draws our attention to the linking capabilities of firms. For example, customer linking capabilities are generally regarded as the most distinctive features of organisations (Day, 1994). Ford et al. (1986) refer to the capability aspect of interaction to describe the relationship between organisations in terms of what they can do for each other and the concerns of the functions which they fulfil. Similarly, Möller and Halinen (1999) refer to the firms’ “relationship management capability” and Ritter et al. (2002) articulate a number of propositions that conceptualise a firm’s ability to manage in networks taking the view that a firm has a strategic window in which it can shape its own future and the future of its network.

Describing the management of business relationships, Ford et al. (2003) present three double-edged aspects of networking that centre on the organisation’s business relationships and their significance. The first aspect involves choices of when to “confront” the status quo of accepted ways of operating and when to “conform” to particular ways of operating. The second aspect involves the choice for an organisation between when to “consolidate” by stabilising and strengthening its existing network position or creating a new position by changing the combination of its existing business relationships or developing new ones. The third aspect is concerned with the choice of when to coerce others and when to concede to the initiative of others. Ford et al. (2003) make clear that these aspects are not dichotomous choices. They argue, for example, that new and existing business relationships can be used for both consolidation and creation. Similarly, organisations attempt to coerce some counterparts whilst conceding to others or doing both simultaneously.

Observing that contemporary purchasing approaches have shifted the emphasis from pure price negotiations to the quality and innovation potential of suppliers, Hartmann et al. (2001) provide a taxonomy of sourcing situations and argue that according to the situation, suppliers can be targeted and links can be made. Even though the authors acknowledge that any implementation depends on other actors as well as the firm's own abilities, their suggested approach for consistent purchasing management does not provide answers to how the involved actors make deals that activate "quality" and innovation potentials. Articulating a number of propositions regarding contract negotiations, Roxenhall and Ghauri (2002) observe that many business deals are concluded without a contract. Nevertheless, contracts are used as a means of communicating the deal or as a means of influencing actors. Their enforcement through the courts is considered a last resort (Harrison, 2000). An answer to how actors handle exchange relationships is described by Walter's (1999) five step model. He demonstrates that an actor is involved in five different tasks: 1) Searching for appropriate actors; 2) Bringing actors together; 3) Exchanging information: 4) Coordinating activities; 5) Getting negotiation results. The five step model raises the question whether the described tasks are figurative or real. Does, for example, an actor bring other actors together or are the actors "together" anyway, in the sense of that they bear each other in mind as they interact with third parties.

Options Approach

Organisations' ability to make choices implies the existence of potentials inherent in business networks as well as the existence of capabilities from individual organisations. For example, the ability of organisations to coerce counterparts depends on the respective capabilities and requirements or problems of the companies involved (Ford, et al. 2003). The ability of organisations to make choices implies the existence of available options today and that tomorrow's options will depend on today's options. Similarly, negotiating in networks is inextricably linked to an uncertain "future" and the firms' availability of "options". Thinking in terms of options provides a new avenue that helps us to investigate the complexity of negotiating in networks.

Options have been routinely applied on trading floors long before their academic discovery. Black and Scholes (1973) developed their option pricing model shortly after the first options exchange opened in Chicago. The so-called Black-Scholes formula was further developed by Merton (Merton, 1973; Mason & Merton, 1985), who showed its broad applicability. Real options is a term used by Stewart Myers (1999) to differentiate the real, physical, capital budgeting options from financial options i.e. options that allow investors to buy and sell options on individual shares. Accordingly, a real option gives an organisation the right, but not the obligation to take a particular course of action at some time in the future. This flexibility allows organisations to take a wait-and-see approach and then react to contextual changes, so they can limit downside losses or capitalize on upside potentials.

Organisations implement their action flexibly through deferral, abandonment, expansion or in a series of stages. Based on a longitudinal study in manufacturer-retailer networks (Mouzas & Araujo 2000), actions are taken in stages preserving the balance between change and stability. While organisations react to events as they unfold, organisational acting takes the form of creating and exercising a number of options that best reflect the organisations' potentials derived from business relationships (Mouzas, 2001). As organisations are confronted with changes and uncertainty about market conditions, and the forecasts and estimates emerge gradually, managers adapt or alter their initial action in order to capitalise on future opportunities or to mitigate existing losses (Trigeorgis, 1999). This means that organisations create, build and maintain a portfolio of options on the future (Williamson, 1999; Beinhocker, 1999; Kogut and Kulatilaka, 1999;Luehmann, 1998).

Despite the merits of option approach, the sophisticated mathematics required to explain them has encapsulated these merits in ivory towers (Razgaitis, 2003). Despite this, the option approach provides a mind-set for re-examining and re-framing how companies negotiate each other to undertake a jointly decided action. Embracing the "logic of options" (Kogut and Kulatilaka, 1999; Ertel, 1999) and applying it to network negotiation raises two challenging questions. First, what are the ways by which the negotiating actors construct their options? The option approach fails to provide an answer on how firms initiate options and does not acknowledge that there is a link between context and options. Second, what is the role of options in the negotiation process? If firms' options are not fixed but subject to negotiation with other firms, much can be gained by looking at the underlying dynamics by which firms seek joint decisions.

The three presented theoretical approaches regarding networks, negotiations and options can be a means to identify research issues and the fields within which to search for concepts and gaps in the existing body of knowledge. In sum:

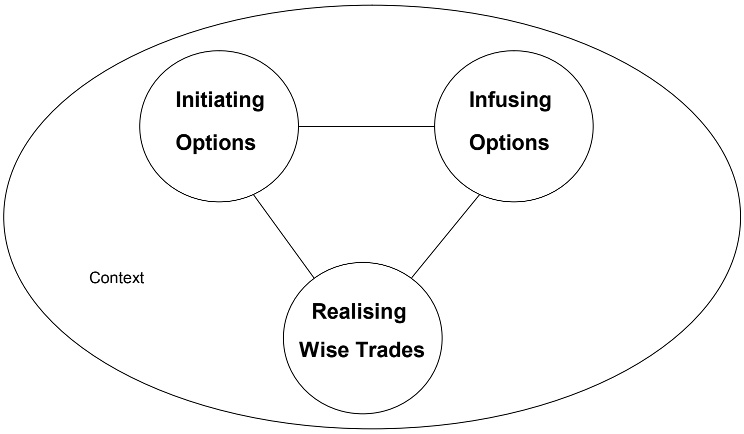
1. The network approach changes our view of negotiations as network theory diminishes the idea that organisations are complete and that they can manage their environments.

2. The negotiation approach helps us to understand the multiplicity of interactive processes in networks. Organisations are dependent on the resources and action of other organisations in their surrounding network. Therefore, a large element of the organisations' action is negotiated with other organisations.
3. The option approach helps us to capture the potentials inherent in inter-organisational networks and articulate them as the firms' perceived options. This is a new way of thinking that re-frames the complexity of negotiating in networks.

A MODEL OF NETWORK NEGOTIATIONS

The proposed model of "network negotiations" is built on the ontological assumption of a stratified reality. The notion of a stratified reality draws our attention to the understanding of negotiation in terms of its location within different processes of inter-organisational interaction. The model of network negotiation is the result of a critical examination of conceptual tools in the areas of networks, negotiations and options as well as the incorporation of empirical research results. Instead of treating negotiations with more than two players as a decision-making problem of one discrete situation, we assume that organisations conduct simultaneous dyadic negotiations in a web of business relationships and their dyadic negotiations have an impact on other relationships in the network. The model (please see Figure 1) consists of three phases of network negotiations. These phases represent the mechanisms of negotiating in networks. We must underscore that in the model of network negotiation, causation is contingent; the same mechanisms can lead under different contexts to different effects.

Figure 1 **A MODEL OF NETWORK NEGOTIATIONS**



INITIATING OPTIONS

The first phase of the model involves the initiating of real and actionable options. To understand the way options are initiated, we differentiate between the context and the representation of the context, resources and potentials and inertia and initiative. Context refers to a set of pre-existing dynamics such as socio-economic externalities, network and dyadic business relationships. The context defines a set of contingencies that provide impetus and resistance to negotiating companies to initiate changes. Companies, however, do not only receive and organise contextual information; they also construct the forms in which this contextual information appears by using technologies of representation such as operating plans, key performance indicators or scorecards. When it comes to negotiations that involve significant capital expenses, investment valuation models are the prevalent technology of representation. For example, companies use the discounted cash flow model to calculate the net present value of mergers & acquisitions or profitability of a negotiated deal with a key customer and suppliers. Technologies of representation allow actors to develop the necessary calculations and rhetoric that render a field of negotiation activity knowable, calculable and manageable.

Negotiators work on operating plans or valuation models that attempt to reflect an organisation's resources and potentials derived from membership in networks of exchange relationships. Organisations are also dependent on the resources and potentials of other organisations in their surrounding network. Therefore, networks constrain the initiatives of organisations, and in turn the initiatives of organisations are shaped by them. It is a dialectic in which networks provide both the impetus to initiate new options and resistance to organisations' initiatives and where networks are also constructed and altered as a result of the organisations' initiatives. Nevertheless, not all of the organisation's potential is translated into real and actionable options. It is often the case that companies show inertia or are blindsided and fail to recognise a plethora of options. In contrast, organisations' perceived options might not correspond to the existing potentials. The coordinates between representation, potentials and initiatives will define the "space of negotiating in networks". The way organisations use this negotiation space is described in the in the next two phases of the model.

INFUSING OPTIONS INTO BUSINESS RELATIOSHIPS

The model's second phase refers to infusing options into inter-organisational relationships. We assume that network negotiations start at the time when the organisations introduce their proposals to suppliers or customers, although this is likely to be preceded by a period of "implicit negotiation" during which organisations attempt to interpret the views of others before introducing proposals. To illustrate the process of infusing options we differentiate between proposals and issues, interests and stances and between retaining and adapting options.

Usually, the negotiating organisations present business proposals that bring concrete issues to the negotiation table. Issues might refer to the product or service quality, prices, terms of payment or the launch of a new product. Proposals can take the form of suggested co-operative projects to be implemented in dyadic relationships or might involve intents for inter-organisational exchange. The existence of proposals confirms and reinforces the embeddedness of the initiatives within a wider range of pre-existing relationships. Articulated business propositions entail underlying interests. For this reason it is useful to differentiate between the perceived interests of the negotiators and their stances on the negotiation table. While the stances that the actors take in the negotiated issues are explicitly stated, their underlying interests are often implicit, hidden, or not expressly formulated. By introducing their business proposals, the negotiating actors infuse new options into existing relationships. This does not mean that we assume that this infusion of options produces outcomes. Through the negotiation, the negotiating actors retain or adapt their options. For example, negotiating actors might expand, modify or restrict their options during the course of the negotiation. While options are affected by the prevailing contextual conditions which provide impetus and resistance to actors, the capacity for a negotiated deal is triggered only in conducive circumstances. In practice, infusing options into business relationships takes the form of providing the rationales and the resources that enable other organisations to initiate change.

REALISING WISE TRADES

The third phase in the model of network negotiations refers to realisation of wise trades. Firms have different resources, potentials and options. They also differ in interests and the stances that they take in various issues. This is a fertile ground for reasonable trading opportunities for mutual gain. Wise trades come about as a result of the different preferences that negotiating actors have on a variety of concerns. This is for example the case, when actors construct agreements that reflect different underlying interests. To demonstrate how negotiating companies realise wise trades, it is important to differentiate between the negotiated deal and the alternative options, between creating and capturing value and between playing and changing the game.

Organisations come to a deal when the negotiated agreement is better than their alternative options. A clear and precise awareness of the alternative options is tremendously important in crafting a deal. The existence of alternative options defines the limits of the negotiations as it allows actors to determine the range of acceptable agreements. Therefore, changes in the organisations' alternative options or the perception of options can significantly impact the outcome of the negotiation. We do not assume that organisations' alternative options are fixed before the negotiated deal. Instead perceived options can change in light of new information and, as described in phase 2 of the model, the negotiating actors might expand, modify or restrict their options during the course. Organisations show a co-operative attitude when it comes to initiatives that create joint value. The prospect of creating joint value drives organisations to negotiate with each other in order to enlarge the pie. However, working together to enlarge the pie is different from sharing the pie. Organisations demonstrate a highly competitive attitude when it comes to the question of how to share the created value. At this point, it is important to make a clear distinction between the value that negotiators can capture within a business relationship and the value of the business relationship. While the value of a deal within a relationship can be measured in monetary units, it becomes more difficult to estimate the long-term value of a business relationship.

The fact that organisations operate within a given context and are embedded in networks of other organisations introduces a number of institutional or normative peculiarities. The rules of the negotiation game are important and organisations expect other organisations to respect them. For example, in manufacturer-retailer networks the game is played within the annual negotiations between manufacturers and retailers. Nevertheless, the rules of the game are also challenged and changed. As described in phase 2 of the model, negotiating actors have their own interests. Development of wise trades occurs because organisations infuse options into existing relationships. By trading on their differences in interests with other network actors, organisations are able to make deals and conduct exchanges. While the underlying interests build the raw materials for negotiating in networks, wise trades take into account the different weights that the involved organisations place on various concerns. A necessary condition for developing wise trades is that the value that is placed on a real option by another organisation is greater than the organisation's own cost of providing it.

Table 1: **NEGOTIATING IN NETWORKS**

INITIATING OPTIONS
• CONTEXT AND REPRESENTATION • RESOURCES AND POTENTIALS • INERTIA AND INITIATIVE
INFUSING OPTIONS
• PROPOSALS AND ISSUES • INTERESTS AND STANCES • RETAINING AND ADAPTING OPTIONS
REALISING WISE TRADES
• NEGOTIATED DEAL AND ALTERNATIVE OPTIONS • CREATING AND CAPTURING VALUE • PLAYING AND CHANGING THE GAME

METHODOLOGY

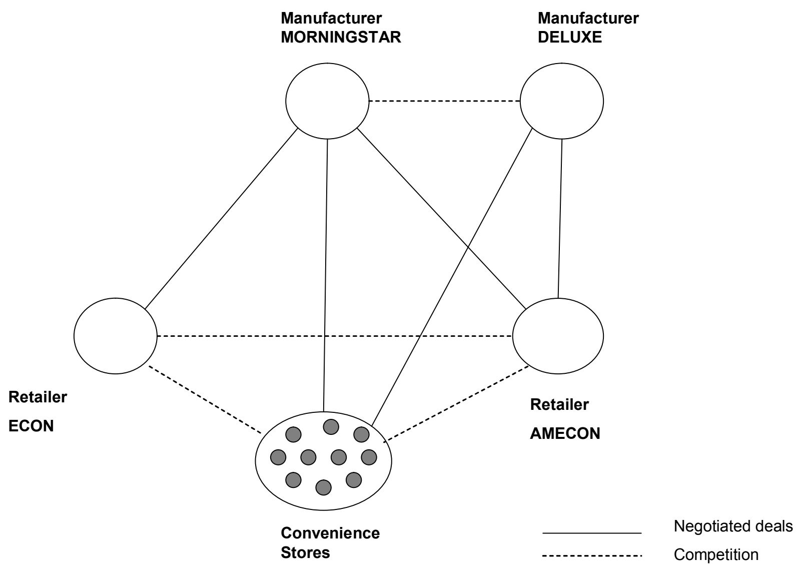
Investigating negotiation in business networks, we use multiple embedded case study research design to collect, analyse and report the empirical. Informed by a realist stance, we regard negotiation as *inter-acting* under specific contextual circumstances. We therefore employed in-depth case studies (Yin 1994; Orlikowski, 1992; Pettigrew, 1990; Eisenhardt, 1989) as our primary research method. The research reported here is a result of a longitudinal study in manufacturer-retailer networks and is linked with our study of how organisations mobilise other organisations in their surrounding networks to work within the plans they develop. It involves participant observation as well as interviews and research workshops with senior managers as methods of data collection. The whole project consists of three phases and is expected to last until January 2004. Phase I (November–December 2002) refers to a pilot study which includes a workshop with 12 senior managers, 8 in-depth interviews, and a critical review of the existing literature. The second part of the project -Phase II- takes place between January and October 2003. This phase will involve two workshops in UK with 24 senior managers, such as Marketing Directors, Purchasing and Supply Directors, Key Account Managers and Controllers. Moreover, during the second phase of the project, 48 personal interviews will be conducted in UK and Germany. Emphasis is based on multiple sources and triangulation of data in order to maintain a chain of evidence and develop converging lines of inquiry that increase the validity and reliability of research constructs. Phase 3 involves a critical revisiting of the empirical evidence and the formulation of further research questions (November 2003-January 2004).

Data analysis involves critical examination, evaluation, categorisation, and recombination of the data collected to address the research phenomenon (Glaser & Strauss, 1967). Our approach to data collection is empirically grounded and is focused on the dialectic relationship between necessary mechanisms of negotiating practices and contextual contingencies in manufacturer-retailer networks. The iterative examination of interview statements, comments and observed negotiations led to the identification of a set of themes that reflected the contemporary challenges of organisations. The analysis encouraged these themes to emerge from the data rather than imposing them on the data.

EXEMPLARY CASE

We present now an exemplary case and discuss the applicability of the model of network negotiation to the empirical data. Figure 2 presents a manufacturer-retailer network in the market of fast moving consumer goods. The network consists of two manufacturers, manufacturer Morningstar and manufacturer Deluxe, retailers Econ and Amecon, and a group of small retailers or Convenience Stores.

Figure 2: Manufacturer-Retailer Network



Morningstar and Deluxe are both multinational FMCG companies and competitors in the product categories of ready to eat breakfast cereals, cookies, crackers, cereal bars and other food and drinks. Their brands are manufactured in 15 countries and marketed in more than 150 countries around the world. Both manufacturers are committed to building long-term growth in volume and profit and to enhancing their worldwide leadership position by providing nutritious food products of superior quality. Amecon is a worldwide leading retailer with a declared policy of "everyday low price", while Econ is a retailer with a clear and consistent focus on aggressive discount outlets and retailer brands. Convenience stores represent a fast growing retail group that comprises petrol stations and small neighbourhood supermarkets. The case describes how the negotiated deals between manufacturer Deluxe and retailer Amecon affected the negotiations between manufacturer Morningstar and retailer Amecon. Moreover, it presents how the negotiated agreements between manufacturer Morningstar and retailer Amecon destroyed the traditional business relationship between manufacturer Morningstar and retailer Econ and provided the impetus for new negotiations with the retail group Convenience Stores.

Negotiation Context

Historically, negotiations take place between the retailer's purchasing department and the manufacturer's sales department. Within the manufacturer's sales department the key account manager is responsible for one or more retail chains. The account manager position in the sales department is similar to the product manager in the marketing department. Instead of being accountable for products, his responsibilities include the establishing and developing of client as well as internal department relationships, such as marketing, finance, production and research and development. The manufacturer's key account manager contacts the retailer's purchasing department to negotiate the issues such as the listing of new products, promotional support and brand visibility or price initiatives. In the "annual trade negotiations" that take place between September and December each year, manufacturers' key account managers visit the purchasing managers of retailers and propose the listing of brands and co-operative measures offering trade allowances as a fee or payment for the distribution that the brands obtain. The purchasing manager is confronted with space limitation in the retail outlets and the different offers from various manufacturers. The outcome of the negotiations for the individual brand listings is determined by market shares, trade allowances and the weight of retailer brands within the retailer. Retailers with discount outlets reserve up to 80% of their shelf space in specific product categories for their own retailer brands.

Manufacturers Deluxe and Morningstar make deals with retailer Amecon

Retailer Amecon was a newcomer in many European countries; it was crucial for them to capitalise on the experience of established suppliers such as manufacturer Deluxe. For this reason, in 1999 the retailer's purchasing managers negotiated with manufacturer Deluxe the following deal: Amecon appointed Deluxe as Category Captain and both agreed to implement several optimisation projects in the areas of assortments structure, shelf design, promotion, and pricing policy. The deal created value for both parties: Retailer Amecon capitalised on the resources and expertise of manufacturer Deluxe, while manufacturer Deluxe could exercise more influence on space, promotions and price of certain product categories than other manufacturers. Moreover, manufacturer Deluxe captured value in another way. The leading position of the manufacturer in many product categories depended on its ability to develop and launch new products that make the existing competitors' products obsolete. Deluxe knew how to obtain reliable consumer data but knew very little about the consumer as a shopper. On the other hand retailer Amecon knew how to obtain outlet-specific data about the shopper and knew very little about the consumer. Capitalising on the existence of different resources, and the potential that was provided by the appointment of category captain, manufacturer

Deluxe developed a number of models with the title “Shopper Insight” that represented the behaviour of shoppers in the outlets. The shopper insight models provided the basis for initiating new options for the design of the shelf and the brand visibility in retail outlets. Manufacturer’s proposals were accepted by retailer Amecon with two “minor” changes. The first change referred to the size and number of brand displays and the second change was linked to a trade allowance that manufacturer had to pay to the retailers in return of allowing brand visibility.

Following the example of its competitor, manufacturer Morningstar took the initiative to negotiate a number of business propositions with retailer Amecon that foster co-operation between the two companies. The business proposals were introduced by the Morningstar’s key account managers to Amecon’s purchasing managers. The presented proposals were in accordance to the annual operating of manufacturer Morningstar that had the title “Focus Even More”. They involved the issues of obtaining listing for key brands and running promotional support. During the annual negotiations between the two companies in 1999, it became clear that the underlying interests of retailer Amecon were 1) achieving price leadership 2) supporting the start up of new outlets and 3) maximising the trade allowances paid by manufacturers to obtain listing. With the slogan “every day low price” retailer Amecon agreed with manufacturer Morningstar to implement permanent “price offers” combined with extra point-of-sale displays.

Manufacturer Morningstar made no secret of its ambition to build up its share in the market of convenience foods that includes snack foods, cookies, crackers, toaster pastries, cereal bars. The company was a leading FMCG manufacturer, but had neglected to develop snack and convenience foods which were demanded by consumers in convenience shops such as Convenience Stores. This was partly a consequence of the bold cost-cutting initiatives in the mid 90's when Morningstar reduced its sales field force by 50%. The company estimated that the total cost of a salesman's call to a convenience store was €400. To reach a high coverage and frequency of the large and rapidly growing number of small convenience outlets manufacturers need to operate with powerful large field forces. Manufacturer Deluxe had such a sales field force that was able to negotiate directly with outlet managers of Convenience Stores about distribution, merchandising, promotional displays and permanent brand visibility at the point of sale. Instead, manufacturer Morningstar represented its client base according to current volume and profit base of customers and developed operating plans that concentrate the organisation's resources -manpower and trade allowances- on deals with key accounts such as retailer Econ and the newcomer retailer Amecon.

The Impact of the negotiated deals on other relationships in the network: Morningstar-Econ and Morningstar-Convenience Stores

The business cooperation between Morningstar and Econ had a history of success. Up to the late 90's Econ represented 1/3 of the annual sales of Morningstar and Econ was Morningstar's most important key customer. For Manufacturer Deluxe the co-operation with retailer Econ was not an option, because Econ carried only a limited assortment of 600 items. Instead, manufacturer Deluxe fostered deals with Convenience Stores and retailer Amecon. Morningstar's interest was traced back to the fact that retailer Econ was the leading retailer in Europe and had a particular strong position in the growing segment of discount stores. Retailer Econ's excellent price-quality positioning resulted in a breathtaking growth during the years 1990-2000. On the other hand, Econ's interest in manufacturer Morningstar was attributed to three key aspects. First, manufacturer Morningstar had a leading position certain specific product categories. Second, the manufacturer had traditional brand management capabilities especially with regard to the management of product lines and pack promotions. Third, Morningstars' brands provided an attractive contribution trade margin of more than

15%. In the year 2001, the management of retailer Econ was swollen with pride to show annual revenues exceeding €50 billion. Econ's management emphasised that rapid sales growth was also combined with a high level of operational efficiency with an estimated net profit margin reaching 10 percent and took the chance to announce that the retail organisation will continue its policy of commitment to providing high quality products at the lowest consumer prices.

The negotiations between manufacturer Morningstar and retailer Econ were conducted in a friendly, although fact-based mode. Nevertheless, Econ observed wearily the negotiated deals between its rival retailer Amecon and manufacturer Morningstar. Through the negotiations with smaller manufacturers, retailer Econ learned that there was an excess capacity among all manufacturers. Retailer Econ realised that through the entry of retailer Amecon, the discount market had become very competitive. Moreover, price offers agreed in the negotiation between manufacturer Morningstar and retailer Amecon, made evident that retailer Econ could not ensure that its branded products were offered at the lowest possible price in the market. Following intense consultations within the organisation, retailer Econ decided in the year 2000 not to play the existing game of price offers and without any negotiations de-listed all Morningstar's brands from its outlets. Overnight, manufacturer Morningstar lost 1/3 of its volume and the branded products were replaced by Econ's retailer brands.

Manufacturer Morningstar was surprised as they had not expected such a reaction. Top management was removed and the urgent need to replace the lost volume and profit provided the impetus for the search for new options. Suddenly, the declared ambition to build up the share of the market in the categories of snack foods was re-discovered and embraced enthusiastically. Nonetheless, manufacturer Morningstar recognised that the initiative to develop the snack business would face two major difficulties: 1) lack of access to

Convenience Stores and 2) the lack of expertise in snack business. To move on with this initiative, Morningstar appointed a Sales Development Director who assumed responsibility for negotiations with wholesalers in the area of Convenience Stores and for new product development.

CONCLUSIONS AND IMPLICATIONS

Going beyond the tradition of examining discrete episodes of dyadic processes of bargaining, we moved on to take a network perspective and investigated the influence of negotiated deals on other inter-organisational negotiations. In our exemplary case, the negotiated deals between retailer Amecon and manufacturer Deluxe provided the impetus to manufacturer Morningstar to negotiate business agreements with Amecon. The negotiated deals affected a series of other seemingly unrelated business relations, such as the de-listing of Morningstar's brands within discount retailer Econ and the start of new negotiations with the retail group Convenience Stores. Without taking a network perspective on negotiations we may not have seen these empirical results. The network perspective does not only shift our attention to a higher aggregation level, it also challenges the belief that organisations are complete and that they can control their environments. As such organisations depend on the resources and actions of others and react to events as they unfold by negotiating agreements with other organisations in their surrounding networks.

Applying the model of network negotiation to our exemplary case, we generate a multi-stage view, which involves different phases of inter-organisational processes. The investigated organisations initiate actionable options, diffuse new options into existing inter-organisational relationships by introducing business proposals to their customers or suppliers, and make wise trades that reflect different preferences and concerns. The proposed model of network negotiation, therefore, can be said to advance our understanding of networks. Instead of describing in general terms the "interaction" among organisations, we operationalised existing network thinking by focusing on concrete inter-organisational processes of how network actors negotiate with each other and make business deals. As a result, negotiation is seen as a process by which interdependent organisations initiate options, infuse options into existing business relationships and finally make wise trades with other organisations that improve their position in comparison to other alternative options.

As described in the exemplary case, manufacturer Deluxe initiated and infused different options than manufacturer Morningstar. Retailer Amecon concurrently initiated different options than discount retailer Econ. Manufacturer Deluxe had a powerful sales force that secured broad customer coverage and a higher frequency of calls. In contrast, manufacturer Morningstar had significantly reduced its sales force and concentrated all negotiating effort behind few key accounts. Retailer Amecon was a newcomer into the European manufacturer-retailer network, while discount retailer Econ was an already established player within the same network. Negotiating with each other to advance their different interests, manufacturers and retailers infused their options into their existing business relationships and closed business deals that demonstrate the occurrence of wise trades at various levels. This is evidenced, for example, in the joint action between retailer Amecon and manufacturer Deluxe during the implementation of category management. Similar wise trades can be observed in the negotiated deals between Amecon and Morningstar and the initial deal between Econ and Morningstar.

One of the most intriguing points in investigating business negotiations from a network perspective is that it enables us to see the constraints, but at the same time allows us to unleash the power of options inherent in networks of organisations. Our empirical data demonstrate that manufacturers and retailers initiate and diffuse options, which are sourced from their surrounding network in the form of “represented” business opportunities. Manufacturer Morningstar, for example, represented its surrounding network based on the current volume and profit base of customers and initiated options that concentrate the organisation’s resources on deals with key accounts such as retailers Econ and Amecon. Similarly, Econ’s choice to change the existing game by de-listing manufacturers’ brands is traced back to the negotiated deals between Amecon and Morningstar and the availability of other alternative options within the manufacturer-retailer network. Learning from the present study, researchers can free themselves from the prevalent association of business negotiations with dyadic tactics of bargaining, and can place inter-organisational exchange at the heart of their consideration. Thus, researchers would not investigate discrete bargaining episodes and tactics that produce business deals, but would study organisations’ potentials derived from membership in networks of exchange relationships. Researchers can look at our proposed mechanisms of network negotiation and investigate how organisations try to balance the exploitation of new opportunities with the maintenance of existing exchange relationships. Further research in the area of network negotiations could create a better understanding of how mechanisms of negotiations interact with contextual parameters to generate the rich range of outcomes we have observed in this study.

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