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**CAPTURING PROFITS
THROUGH NEGOTIATION**

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ABSTRACT

Organizations are recognizing the importance of capturing profits through negotiation. Changing customer tastes, technological innovations and global competition are compelling many organizations to capitalize on the assets and capabilities of other organizations, to improve their financial results and to formalize their agreements into contractual arrangements. This article focuses on how organisations negotiate with each other to capture profits and formalize their agreements into contractual arrangements. To develop a theoretical framework, organisations' action is conceptualized as an iterative cycle of three interconnected systems. The first refers to the negotiation process, the second is concerned with financial implications of the business deal and the third includes contractual manifestations of negotiated agreements. Adopting this perspective provides an alternate intellectual lens that allows us to develop an integrative view of business action and to transform abstract network thinking into a practical framework that is relevant both for business network theory and also for the practice of business marketing.

NEGOTIATIONS, FINANCE AND CONTRACTS

An increasing number of researchers escape a narrow functional specialisation by pursuing relational and network approaches that integrate functional and behavioural streams (Easton, 1992; Håkansson, and Johanson, 1992; Anderson, et al., 1994; Dyer and Singh, 1998; Stevenson and Greenberg, 2000; Ritter, 2000; Gnyawali and Madhavan, 2001; Kranton and Minehart, 2001; Uzzi and Lancaster, 2003). By taking a broader relational perspective, researchers tend to look at an organization's relationships as its prime assets. This rather relentless emphasis on organizational relationships has broadened our view of organisational behaviour and allowed us to think on a higher aggregation level, but it has not deepened our understanding of the mechanisms that organizations use to achieve profitable results in their surrounding business networks. Instead, it has contributed to a vague and

often poorly defined thinking about “network interactions” among actors that is rarely applicable to the real world of firms.

Organisations, acknowledge that the desired “interaction” in business networks or co-operation in a business relationship alone cannot nowadays ensure the achievement of best performance (Lax and Sebenius, 2002; 2004). Organisations negotiate with each other to make profitable business deals and this is becoming increasingly a way of life for business managers in all kinds of industries.

Organisations’ recognition of the importance of capturing profits through negotiation emanates from two important realisations. Firstly, organisations acknowledge that their companies are not free, independent or immune to the initiatives of other companies. They are susceptible to changes in their surrounding network and have to negotiate with other organisations to protect and ensure their own interests. Secondly, organisations realize that their action needs to maximize short-term profitability as well as long-term business growth. They realize that with current information technology, the globalization of financial markets and the worldwide use of standard performance indicators, capital is flowing quickly towards the most productive uses.

This article aims at providing a theoretical framework for conceptualizing how organisations negotiate with each other to capture profits and manifest their deals in contractual arrangements. To create a theoretical framework, business action is conceptualized as an iterative cycle of three interconnected systems. The first refers to the negotiation as a process by which interdependent companies, with different backgrounds and potentials and different interests and goals, seek to do better through jointly agreed action. The second is concerned with financial dimensions of the business deal and attempts to define the vague notion of performance. The third includes contractual arrangements as a manifestation of enforceable agreements and an expression of the reasonable expectations of contracting parties. Therefore, the theoretical

framework draws on theories from three areas: negotiations, finance and contracts. Instead of providing prescriptions for profitable deal making, the article draws from the research experience in these three disciplines to develop an explorative framework. A model of business action is proposed followed by conclusions and suggestions for further research.

Negotiation Approach

Negotiation can be seen as a process by which interdependent organisations, with different backgrounds, potentials and different interests, seek to do better through jointly agreed action (Mouzas and Ford 2003). The conceptual underpinnings of contemporary negotiation theory can be traced back to game theory and decision analysis (Neumann and Morgenstern, 1944; Nash, 1950; Luce and Raifa, 1957; Roth, 1985) which has been substantially influenced by operations research, systemic or cybernetic approaches grown out of World War II logistic problems (Smith, 1966; Fortun & Schweber, 1993). Building on this heritage, Raifa (1982) blends in his classic work on the art and science of negotiation the practical aspects of bargaining with mathematical analyses. Raifa' (1982) work provides a solid ground for a new generation of negotiation researchers, who repeatedly acknowledge that there is no shortage of disputes.

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; 2004) challenge 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. Sebenius (1992) and Lax and Sebenius (1986, 1991, 2002) emphasize the importance of focusing on differences as opposed to similarities. They consider differences in interests and perceptions as the raw materials of the negotiation

and the means to create joint gains. Furthermore, 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.

The deviation from game theory and decision analysis in negotiations was also accompanied by some significant advances in psychology over the last decades. Investigating the strategy of conflict, Schelling (1960) criticized traditional game theorists for failing to recognize 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 decade to encompass the effect of dynamic social and personal factors such as perceptions, problem restructuring, negotiation on behalf of others, negotiation styles and appropriate behaviour (Sycara, 1991; Mnookin and Susskind, 1999; 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. Negotiators thus consistently overlook opportunities for wise tradeoffs (Bazerman et al., 2001). Following this line of thought, Wade-Benzoni et al. (2002), provide contemporary examples of environmental disputes to illustrate the difficulties and failures to reach settlements in ideologically based negotiations. 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.

Negotiation theory advances our knowledge about the effect of social and cultural factors on interpersonal negotiation processes. Notwithstanding the acknowledgement of the distributive side of negotiations (Sebenius, 1992; Allred, 2000), it can be observed that current research has not recognized the significance of linking negotiations with financial performance and treats the two areas as if they were two separate entities. Moreover, negotiation research needs to be linked with research in the area of contract law and it needs to recognize that legal obligations begin with the start of negotiations (*Culpa in Contrahendo*). The contribution of both areas finance and Contract is discussed in detail in the next sessions.

Finance Approach

Every sound business analysis ties details of action to financial performance (Hawawini and Viallet, 1999). It is, therefore, important to look at the variables that contribute to financial performance and discuss their appropriate management. Despite the obvious relevance of looking at financial performance, it appears that business managers rarely understand or assess the full impact of their action on key financial indicators (Barwise et al., 1989; Myers, 1999). And yet business managers are often reassured by a number of financial indicators, even if these are not the best measures of marketing effectiveness (Ambler, 2003). Barwise et al. (1989) further observe that marketers and finance people seldom see eye to eye. Instead of evaluating all relevant cost and benefits of a business action in an interactive way, they do not take into consideration the consequences of not acting, the time horizon and the availability of alternative options of investments.

The same observation could also apply to researchers of the two domains. While marketing is concerned with exchange processes in a business environment, finance looks at the allocation of scarce resources over time under conditions of uncertainty (Bodie and Merton, 2000). To bridge the gap between the two fields, Srivastava et al. (1998) propose a conceptual framework

of marketing-finance interface and argue that marketing needs to be concerned with the task of developing and managing assets that arise from the commingling of the organization with entities in its surrounding business environment.

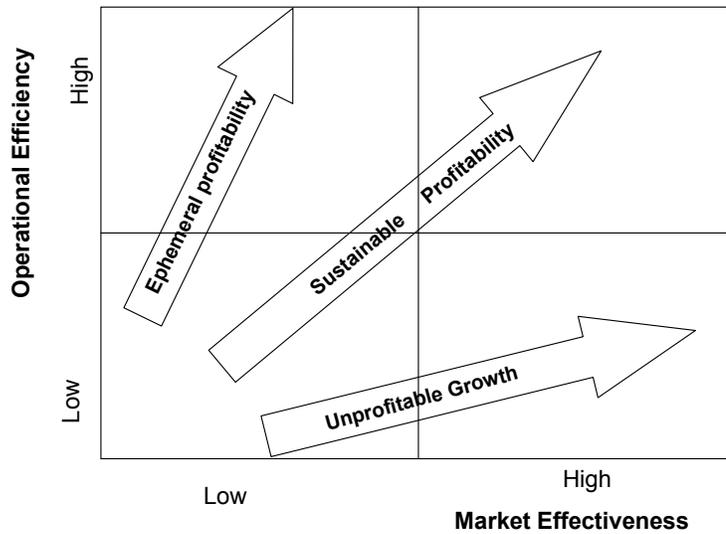
Organizations use their assets which comprise their own equity and capital that they have borrowed (Myers, 1977, 1984; March, 1982; Stiglitz, 1988; Harris and Raviv, 1991; Hawawini and Viallet, 1999) to generate sales revenues. In order to generate revenues, organizations implement business activities which produce costs and expect that these costs will be sufficiently low to allow them to make profits through different systems of exchanges (Biggart and Delbridge, 2004). Moreover, the assets that they utilize are not free of charge; there is an opportunity cost of capital (Modigliani and Miller, 1958) which is the cost of not investing in other business opportunities of similar systematic risk. Therefore, the opportunity cost of capital varies from action to action, depending on risk. In practice, organizations classify activities with similar risks and calculate the net present value of their expected future cash flow (Myers, 1999).

Describing the process of economic development as the interplay between markets and firms, Moran and Ghoshal (1999) observe that historically firm-level theories focused on issues of competitive advantage through value appropriation rather than on issues of creating new sources of value. The historical propensity may be attributed to the observation that purposive business action is far more applicable to operational efficiency gains than to the effectiveness in creating new sources of value in the market. The implication of Moran and Ghoshal's (1999) argument is that if an organization does not adequately embrace new possibilities it is likely to witness its own decline. Decline will come if someone else is better structured to embrace the possibilities that emerge. Inter-firm negotiations are increasingly becoming the way to embrace these possibilities (Mouzas and Ford, 2003). Organizations negotiate with their customers, suppliers, banks and agencies in their

surrounding networks and their deals not only affect the organizations' operational efficiency but also the degree of market effectiveness. Operational efficiency is expressed as a fraction which has profits as a numerator and sales revenues as denominator (profits/sales revenues). On the other hand market effectiveness is expressed as a fraction that has sales revenues as a numerator and assets as a denominator (sales revenues/assets).

The finance approach contributes to our understanding of the interplay between a market effectiveness and operational efficiency by offering us the concept of the "return on assets" which is the product of the two fractions. This concept can be used to assess the financial implications of the inter-organizational negotiations (Corstjens and Corstjens, 1995). Achieving a return on assets requires concerted organizational action that involves both gearings: operational leverage as well as market leverage (see figure 1). Focusing on operational efficiency by neglecting market effectiveness would result in an ephemeral profitability. In contrast, focussing on market effectiveness by neglecting operational efficiency may result in an unprofitable growth if the opportunity cost of capital is higher than the resulted profits. A balanced approach that aims at high operational efficiency and high market effectiveness would require from organizations to stretch their endeavours. Organizations' endeavours, however, would need an integrative framework of organizational action that enables organizations to embrace evolving possibilities inherent in markets and create superior levels of sustainable profitability.

Figure 1: Organisational Action affects Performance



Barney (1986) claims that in general it is difficult to negotiate to buy goods and services for less than they are worth and that any attempt to explain superior profitability must account for why the assets supporting such profitability could have been acquired for a price below their rent generating capacity. Inspired by the work of Barney (1986), Denrell et al. (2003) start their analysis of the economics of strategic opportunities from the observation that a profitable business opportunity exists whenever prices fail to reflect the value of a resource's best use. The discovery of profitable business opportunities is, however, a matter of serendipity and a matter of negotiation access to idiosyncratic assets of other organizations. Profitable opportunities require effort and luck as well as alertness and flexibility. Each organization is shaped by its own capabilities and its own access to idiosyncratic assets of other organizations. Organizational assets are complex and multidimensional. They comprise of tangible resources such as buildings or inventories but also intangibles such as business relationships or access to business networks which may not be recognized by potential buying or selling organizations.

Therefore, information asymmetry and symmetric ignorance imply massively imperfect markets (Akerlof, 1970; Dierickx and Cool, 1989; Stiglitz, 1993; Harris and Raviv, 1996) where business opportunities are not equally visible to all actors.

Denrell et al. (2003) provide evidence that profitable opportunities are specific to organizations that seize them and they are usually specifically prepared for them by their pre-history. In their view (Denrell et al. 2003, pp. 988-989), the “crucial missing element in the resource valuation story is the idiosyncratic information and capabilities of an individual firm” and thus “the challenge of strategy is the challenge of assessing the opportunities that open to an idiosyncratically positioned actor in a changing environment”. Organizations which are able to integrate dispersed pieces of atomised information and capabilities through a multilateral negotiation and deal-making with other organizations in their networks may create a competitive advantage and seize profitable business opportunities.

Contract approach

Existing research on contract law tends to adopt an overwhelmingly transactional view. In general, Contract law (Steyn, 1997) is concerned with the enforcement of private arrangements to protect the reasonable expectations of the contracting parties as expressed or implied in an objective manifestation of an agreement. In the event of a dispute a neutral court should decide the case and a prediction of what a court will decide is what we call the law (Holmes 1897).

Our existing theory of contract law has been significantly affected by underlying institutions of property law. Therefore, contract law recognizes, encourages and facilitates free and voluntary transactions. In this sense, contract law is giving legal effect to business relations. Existing contract law, however, appears to have a number of deficiencies when applied to many long-term contractual relations (Campbell and Harris, 1993). Existing contract law

has been conceptualized on the premise that all contracts are discrete transactions and is, therefore, less suited to long-term contractual relationships (Atiyah, 1995). Long-term contractual relationships are still dealt with existing contract principles (McKendrick, 2003; Burrows, 2000) despite the fact the rights of contractual parties often cannot be traced back to an enforceable agreement preceding the long-term relationship. For example, most agreements between manufacturers and retailers are in a process of an on-going modification as time goes on (Mouzas and Araujo 2000). These modifications are not the result of an explicit agreement or promise but the outcome of a real day-to-day construction and negotiation as manufacturers and retailers interact with each other (Mouzas and Ford, 2003). Therefore, the conceptualisation of a promise (Fried, 1981) or set of promises as an event from which rights arise appears simply too narrow (Atiyah, 1979, Kimel, 2001).

Many contractual arrangements, such as the relations between manufacturers, retailers and the final consumers, are nowadays regulated by statutes and norms, which do not always conform to classical principles of contract law. New norms such as *good faith* or *fair dealings* set new objective standards (Zimmermann and Whittaker, 2000; Beatson and Fiedmann, 2002). Furthermore, the increasing importance of codified legal restrictions in civil law traditions such as continental Europe and Japan as well as the growing importance of statutes (Beatson, 2001) in common law systems such as England and Wales, USA and Australia cannot be overlooked, while the primacy of private law can no longer be taken for granted. Notwithstanding the dominance of traditional legal thought, the gradual emergence of a European legal science and the process of legal harmonisation in Europe are affecting the way we view events (Zimmermann, 1996; Markesinis, 1994) and our view of the *rights*, which arise from them. Manifestations of consent, wrongs or unjust enrichment, for example, are causative events, which may trigger various responses (Birks, 2000). The gradual acceptance of new commercial standards in the conclusion and performance of exchanges, the increasing regulation of contracts (Collins, 1999), the more purposive approach of courts (Steyn, 1997)

and the need to take into account implicit dimensions (Campbell et al. 2003) of the context of the exchange relationships are slowly prevailing.

A number of legal scholars would move on further to argue that there is currently a disjunction between legal scholarship and practice (Zimmermann 1996) that underlines the absence of relevant empirical research. Historically, the need to take a broader perspective that incorporates the context of exchange has started to become evident after Williston's treatise with the name *The Law of Contract* and the Restatement of Law of Contract in USA in the 1932. Legal scholars started to demonstrate that the abstract doctrines of contract law were inconsistent. In 1952 Corbin claimed that law constitutes a part of our society which constantly is changing. Therefore, he argued that real facts are more important than abstract doctrines and that focusing on real facts one could develop new doctrines and practical policies. After Coase's (1960) publication of *The Problem of Social Cost*, the economic analysis of law (Knonman and Possner, 1979) provides new insights about the role of value maximization and efficiency and attempts identify the implications of substantive concepts of contracts within a broader conceptualization.

Relational contract theory in the 1970's and 1980's was one further attempt to continue the contextualisation effort. Relational contract is a term developed by Macneil (1985; 1987) to describe a relational theory of contract. Goetz and Scott (1981) specified that a contract may be regarded relational to the extent that the parties are incapable of reducing important terms of the arrangement to well defined obligations. Teubner (2000) claims that relational contract creates an incorrect juxtaposition between economic and sociological interpretation and articulates the need for the private law to free itself from the monopoly of economic calculation and to get in direct contact with other social subsystems that use different rationalities (Elster, 2000). In Teubner's view, a contract is at least three autonomous projects: 1) a productive agreement, 2) an economic transaction and 3) legal promise. In a similar way, Collins (1999) develops three independent points of reference for contractual behaviour: the

business relation, the economic deal and the contract. Not long ago, Macneil (2001) re-baptized his own approach by the name *Essential Contract Theory* to differentiate it from other relational approaches (2001). Key pillars of his approach are the contextual parameters of in the implementation of contracts, a number of norms such as integrity, reciprocity, contractual solidarity, effectuation of consent, propriety means but also restitution, reliance and expectation interests. A number of legal scholars have developed further work on the foundations of a relational contract theory and expressed the need for a rival to the classical contract law (Campbell et al. 2003; 2000).

Following Macneil, Vincent-Jones (2000) develops a methodology for assessing contractual governance and argues that the state has to play a central role in facilitating the organisational and institutional norms for relational contracting. Hence, contractual arrangements should not only satisfy norms which are just relational than discrete, but they should also satisfy criteria of legitimacy as well as effectiveness and efficiency. Despite the valuable contribution of the relational contract theory in correcting the premise that all contracts are transactions, it appears that legal scholars who used the theoretical constructs of a relational contract were not able to resolve a number of inherent ambiguities (Campbell, 2000) and had considerable difficulties to apply their sociologically abstract thinking. Eisenberg (2002) criticizes the relational contract theory and rejects the claims for a separate legal category of relational contracts. He makes the cogent argument that all general principles of contract law should be formulated to be responsive to both relational and discrete contracts. Similarly, McKendrick (2002) rejects the claim of a separate legal category of relational contracts and suggests that it is largely to the contractual parties to insert into their contracts clauses such as force majeure, hardship or third-party intervener clauses which deal with particular eventualities, while the courts (Staughton, 1999) should adopt a more flexible approach to the interpretation of such clauses. Hence, McKendrick concludes that in particular long-term contracts should be phrased in broad, flexible terms to enable the contractual parties to adjust their bargain. Since many

deals collapse over differences in judgments about how the future will unfold, organisations increasingly bet on uncertain events by using contingent contracts instead of arguing about them (Bazerman and Gillespie, 1999). Such arrangements motivate organisations to perform at or above contractually agreed levels.

Drafting indefinite long-term contracts is a reasonable behaviour, when incompleteness is exogenous to the contract and the involved parties are incapable of defining all eventualities and verify all measures of performance. Nonetheless, the existence of indefinite long-term contracts raises a more fundamental question. Why do parties deliberately phrase their contracts in broad and flexible terms when definiteness makes legal enforcement easier? An answer to this question is that many business contracts are self-enforcing. Charny (1990) demonstrates that organisations rationally rely on non-legal rather than legal sanctions to enforce their commitments and that the courts may harm actors by interfering. A more recent research that took place between 1998 and 2002 in USA (Scott 2003) reveals that many agreements are self-enforcing because the involved parties are able to create efficient non-legal mechanisms for dealing with problems in such a way that they do not have to rely on legal enforcement. Such mechanisms are usually based on reciprocal fairness, repeated negotiations and escalation of commitment. In Scott's words (2003, p.1646), contracts may be self-enforcing in two different ways. First, if the involved parties contemplate repeated interactions, neither party will breach an agreement if the expected gains from breaching are less than the expected returns from future transactions that breach would sacrifice. Second, neither party will breach a promise if the reputation costs are greater than the gains from breaching.

Nevertheless, as Scott (2003 p.1644) acknowledges, "reputations work best in markets for homogeneous goods or in ethically homogeneous communities and parties in on-going relationships face end-game dilemmas". Analysing the dissolution of a long-term business relationship between Marks and Spencer

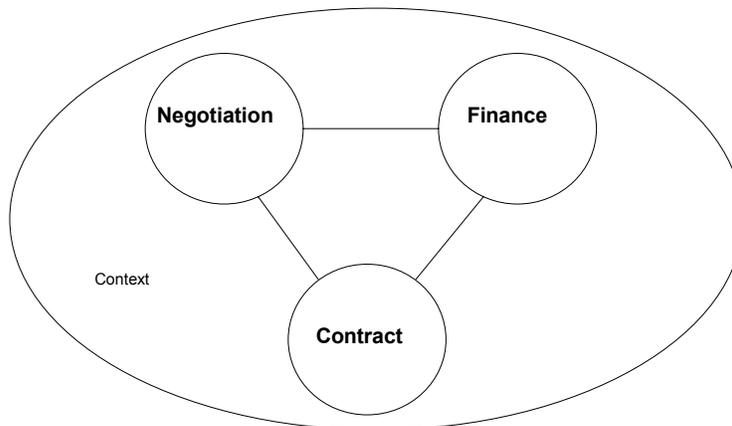
and its supplier Baird, which was not manifested in a contract, Harrison (2004) discusses from a transaction cost, relational contract and networks perspective the decisions of the courts in England to reject the claim that a long-term relationship constitutes an enforceable contract. Presenting and interpreting the same case of Baird v Marks, Blois (2003, p. 93) concludes that actors need to recognize the co-existence of converging or diverging interests and temper their belief in the relationship. As he allegorically formulated, relationship is a social construction of reality as it is obvious, that it is contingent to the other party maintaining the belief that an interaction constitutes a relationship.

MODELLING BUSINESS ACTION

Informed by a realist stance (Pawson and Tilley, 1997), capturing profits through negotiation is regarded as *business acting* under specific contextual contingencies. The present paper sets the theoretical ground for a longitudinal, inter-disciplinary research on how companies negotiate with each other to make business deals. Following the foregoing theoretical review, this section aims at constructing a conceptual framework for the study of Business Action (see figure 3). The conceptual framework links the three perspectives of the research areas together by considering relationships between concepts and provides a structure that allows us to examine interconnected systems using conceptual tools in the areas of negotiations, finance and contracts. Instead of proposing a prescriptive management concept that emphasizes tactical aspects of business negotiations and decision making, this conceptual framework attempts to capture the complexity of dynamic and developmental aspects of business action. It articulates business action from three different perspectives. The first perspective is related to the relevance of negotiation in the process of finding and arriving at jointly decided business action, the second is linked to the financial implications of this business action, and the third includes the articulation and manifestation of the negotiated agreement. Putting these

interconnected systems 1) negotiation, 2) finance, 3) and contract together we create a vision of a stratified reality of business action.

Figure 2: Interconnected Systems of Business Action



Even though the framework articulates the managerial action from three different points of view, the three perspectives do not exist in isolation. Instead, they represent three interconnected systems that stand in reciprocal relationship to one another. Therefore, there is an inherent dynamic interplay among negotiation, finance and contract. For example, the financial implications of the negotiated agreement are not assessed after the contract is signed but they are impacting and shaping the negotiation outcome. Business negotiations need to aim at achieving simultaneous financial results according to three performance indicators: 1) market effectiveness, 2) operational efficiency and 3) financial leverage. Similarly, contractual arrangements are not regarded as subsequent paperwork but are used as a dynamic tool or a way-station that reflects the reasonable expectations of the parties as they allow them to go back to the manifested agreements time and again to test their understanding of what they agreed. As the agreement among parties in many contractual arrangements is not an instantaneous event but is gradually reached over a period of time, negotiations and dispute settlements, which are

not to the same degree adversarial as those involved in litigation, are becoming increasingly important because the parties in general are interested in continuing their relationships. Moreover, organisations encounter contextual contingencies and this implies an impetus but also a resistance to business action.

The ontological foundation of the proposed framework of business action rests on stratification, exchange and futurity;

Stratification

The reality of Business Action consists of several layers of organisational processes. The three interconnected systems in the proposed model of business action do not imply that there is no backtracking and that all business phenomena go through all of these systems. The three interconnected systems of negotiation, finance and contract were introduced to employ a generative conception of causality. Investigating business action generatively (Pawson and Tilley, 1997), we do not come up with a secessionist view or associations of one business action with the other, but we investigate the "make up" or the how and why the association itself comes about.

Exchange

Negotiation outcomes, financial results and contractual agreements are based on an ongoing multilateral exchange among actors. Understanding the multiplicity of exchange systems (Biggart and Delbridge, 2004) requires a fundamental insight of the process by which individuals and organisations with different backgrounds, potentials and different interests seek, achieve and manifest joint gains.

Futurity

Business action aims at the achievement of future objectives. The three interconnected systems -negotiation, finance and contract- anticipate and "presentiate" (Macneil, 1974) future results. Hence, they incorporate a

significant element *futurity* (Atiyah, 1986). In financial terminology, the value of a business action is articulated as the net present value of all future cash flows.

The conceptual framework allows us to categorize, explore and explain empirical findings within their real life context. The primary objective in using the three interconnected systems of business action is to describe and explain what triggers business action and how this is happening. Therefore, the critical question is how, within a set of contextual contingencies, inherent mechanisms a) shape inter-firm negotiations b) generate verifiable financial results and c) articulate a legal architecture of shared expectations.

CONCLUSIONS AND RESEARCH AGENDA

The present study demonstrated that negotiation, finance and contract do not work in isolation. Capturing profits through negotiation was presented as an alternate perspective of contemporary business action and helps us in achieving three significant advantages: Firstly, an integrative view helps us to understand the stratified nature of business action; secondly, a practical framework highlights contemporary challenges and opportunities; thirdly, an understanding of negotiation, finance and contract helps us investigate action in business networks.

The first advantage of taking an integrative view on business action is that it helps us understand the stratified nature of organisational reality. It enables us to deconstruct significant elements of business action to place them in the context of both a relationship and a wider network. The *model of business action* provides a multi-stage and multi-activity view, which involves different interconnected systems based on a) negotiation dynamics of the participants, b) the financial implications of their negotiated agreement and c) the contractual arrangements. The proposed model builds on the conceptual tools of subsystems expressed by Collins, (1999) and Teubner, (2000). However,

Collins' (1999) and Teubner's (2000) subsystems present normative sub-worlds which do not account for the two significant facts. First, organisations are not embedded in networks of business relationships with the only purpose of preserving and enhancing trust, and effective deals are not based solely on reference to economic self-interest but they are grounded on wise trades between parties. Deals which are not based on wise trades among parties are not sustainable. Therefore, an economic deal should not be seen as self-interest, rational calculation opposed to the notion of a business relation which stands for co-operation and commitment. A fair business deal must by definition be profitable for both partners. Secondly, real-life business action is not governed by closed, self-referential or autonomous social subsystems as postulated by Teubner (2000) but is the on-going result of an inherent translation among interconnected systems that shapes the events which we observe empirically.

The second advantage is related to the ability of the alternate perspective to transform the current abstract network thinking into a practical framework that helps us understand the complexity network phenomena. Negotiations are not simply network interactions but contain an inherently creative process within a set of norms by which interdependent organisations seek to do better through jointly agreed action. Eisenberg (1976), therefore, rejects the perceived dichotomy between norm-free negotiation and norm-bound adjudication. Evaluating the way principles, rules and precedents operate in private negotiations Eisenberg (1976; 1978) suggests that norms such as good faith or consultative process play an integral role especially where the relationship between parties is characterised by mutual dependence. Coase's (1992 p. 233) hyperbole that "in a hypothetical world of zero transaction costs (cost overseeing and enforcing contracts) the parties to an exchange would negotiate to change any provision of law which prevents them from taking whatever steps are required to increase the value of production" illustrates the inherent organisations' creativity in finding new joint gains. The challenge for managers is to recognize existing norms but also inherent differences in interests and

perceptions and to consider them as the raw materials of a negotiation and as a means to produce joint gains. Joint gains are not abstract notions but can be measured and verified objectively with the use of financial parameters and they can be articulated through contractual arrangements. Jointly agreed action needs to provide an impact (see figure 1) on 1) market effectiveness, 2) operational efficiency and 3) financial leverage, and it needs to be manifested to express and enforce the reasonable expectations of the parties that have decided to do so.

The third advantage is that the proposed framework can help us to analyse i.e. categorize, combine and recombine empirical observations of how organisations undertake a jointly agreed action in networks of business relationships. The *model of business action* is not an end in itself but is a means to identifying worthy research issues. The three interconnected systems of that model were chosen as the fields within which to search for and link empirical observations. In practical terms, this means that the research on negotiations between organisations needs to include the investigation and analysis of contract documents and financial statements. The present study has shown the importance of adopting an alternative lens in investigating organisations' action. Further empirical research on how organisations with different backgrounds, potentials and interests undertake a jointly agreed action would increase our understanding of the link between negotiation, finance and contract and would contribute to a new quality in network theory. Such empirical research negotiation comes in a time where a range of factors, such as changing customer tastes, shorter product life cycles, and increasing global competition are pressurizing many organisations to both scrutinize their whole

business in order to improve operational efficiency and also to exploit the knowledge, technologies and financial assets of other companies in order to maximize their market effectiveness and financial leverage. Organisations are susceptible to changes in their surrounding network and have to negotiate with other organisations to protect and advance their own interests. Within these contextual developments, looking at business initiatives as the introduction of new propositions into existing exchange relationships, further research can explore how organisations negotiate and manifest the achievement of wise trades and how these exchanges are impacting on organisations' performance. Furthermore, a research agenda needs to include an investigation of how organisations deal with the increasing uncertainty in their particular contexts and how organisations see this uncertainty as a source of exploring and exploiting new business opportunities. This requires a further investigation at two levels. Firstly, investigation is needed on how organisations incorporate uncertainty in their operating plans, financial calculations and business contracts in form of perceived risks and on how organisations hedge against them. Secondly, further investigation is needed on how organisations identify, develop and exercise current and emerging options through an ongoing negotiation and deal-making in their surrounding networks. Investigating these areas by employing the proposed model could create a better understanding of how mechanisms of organisational action interact with contextual parameters to create the contemporary events that we view.

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