

## **1. Real-life negotiation research in Spanish and German professional service firms**

Negotiations are present in our everyday life both personally and professionally. In the business world, managers spend approximately 20% of their time in negotiations (Tajima and Fraser 2001, p. 217; as in Shea 1983). Negotiation skills are proven to be very valuable and a critical factor for a company's success (Robinson and Volkov 1998, p. 95), due to the dynamic nature of businesses, the interdependence across organizations, the accelerated competition, the increased availability in the information age and the elimination of cultural boundaries through globalization (Thompson 2009, p. 3). That is why researchers have turned their attention to the topic.

In the business-to-business sector, sales negotiations are especially relevant because a sale is not a mere choice of a product but offerings are more complex and involve a larger amount of issues. Therefore, the seller and the buyer have to agree on a variable number of issues to close a sale.

Although researchers have investigated many aspects of negotiations in different industries, there are some parts of negotiation research that remain unknown. Many academics base their research on experiments in a given setting, with a given number of parties, issues and levels of choice for each issue in order to investigate agenda setting and issue management. There is a fixed bargaining set and parties try to get the best outcome given the options they have. One often finds statements like "your staff has prepared a table listing the attributes that are of concern to you" (Raiffa 1982, p. 148) or "the experimenter told participants that the negotiation concerned three issues (...). The experimenter gave each participant a payoff schedule, describing the various alternatives for each issue" (Weingart et al. 1990, pp. 14-15). Negotiators receive the material and instructions for the experiment: the issues to be negotiated, the possible alternatives with their respective payoffs and the walk-away points in case of not reaching an agreement (Mannix et al. 1989, p. 511), and try to solve the task presented with the information received.

Other academics have suggested prescriptive approaches of negotiations and several tactics involving the way issues are negotiated. However, the validity of these prescriptions has been questioned, as the results obtained are based on experiments and are sometimes even in conflict with each other (Weingart et al. 1990, p. 8).

Therefore, there is a research gap in the field, that is going to be partially covered by the research of this master's thesis, as negotiations in real life do not have a fixed set of issues and certain levels to choose from and involve more complex factors that are difficult to replicate in a laboratory setting, such as the influence of relationships.

A particular industry has been chosen in order to narrow down the scope of the thesis. Indeed, the focus lies on professional service firms (PSFs), which belong to the business-to-business sector and are distinct from other types of companies because of the nature of the services they offer, the kind of employees that work there and the relationship with their customers (Nordenflycht 2010, p. 155; Lowendahl 1997, p. 16), which are factors that can make a difference in a negotiation.

Although the strategy, governance, management style and human resource management have been already studied, there is no specific research on negotiations in PSFs. Negotiations in this industry can be different than in other industries because of the intangibility of their services. Projects are complex in nature as they involve offerings related with knowledge instead of a pure commodity. Although some PSFs are more commoditized than others, one can think that negotiators can deal with a broader range of variables and are more flexible in bringing issues to a negotiation than other industries.

In addition, due to the access and contact to both Spanish and German PSF managers, cultural specificities related to negotiations are going to be examined. Many researchers have investigated negotiations in different cultural contexts and cross-cultural negotiations, as culture is said to affect the behavior of negotiators and the way they share and exchange information (Adair and Brett 2005, p. 33), having

different goals or values (Hofstede 1983, pp. 48-49) and also different communication styles (Hall 1976).

Although this is not a study of intercultural negotiations, i.e. between parties from different cultures, the aim of the cultural aspect of this thesis is to find out possible differences in the way issues are negotiated in two different cultures, to open up a possible future research perspective in case of significant results.

All in all, the purpose of this thesis is to gain theoretical understanding on how negotiation issues are managed in a real-life sales negotiation in a business-to-business context, taking the professional service sector as the object of study and examining possible cultural differences between Spanish and German negotiators, and specifically, to answer the following research questions:

- Which are the issues that are negotiated during a sale in professional service firms?
- When and how are these issues introduced and why?
- How are these issues negotiated and why?
- Which factors (including culture) influence the negotiation of these issues?

Through an exploratory research study based on a grounded theory approach with qualitative interviews, the aim of the thesis is to contribute to the academic research on agenda setting and issue management by bringing theoretical insights based on the reality of negotiations instead of laboratory experiments.

After providing the basic theoretical foundations on negotiations, professional service firms and a characterization of the German and Spanish cultures that are necessary to have an understanding of the field covered in Chapter 2, the methodology used in the study is going to be described in detail in Chapter 3, as required by the approach followed.

Subsequently, the results are going to be presented in Chapter 4 following the structure of the initial research questions, from a descriptive and explicative point of view.

Finally, the implications of the obtained results for the negotiation research, together with its consequences for professional service and culture research are going to be discussed in Chapter 5. At last, the main insights of the thesis are going to be summarized in a conclusion, pointing out its limitations and possibilities for future research.

## **2. Theoretical foundations**

### **2.1 Negotiations as cooperation and competition**

Negotiation is “a process of potentially opportunistic interaction by which two or more parties, with some apparent conflict, seek to do better through jointly decided action than they could otherwise” (Lax and Sebenius 1986, p. 11).

Negotiations are both a science and an art, as on the one hand, they require analyzing a problem systematically in order to solve it efficiently, and on the other hand, include a less technical component, as interpersonal skills and tacit wisdom in relationships play a significant role (Raiffa 1982, p. 8) in a background of uncertainty (Olekalns and Smith 2000, p. 527).

Negotiations are said to have a “mixed-motive” (Donohue 1981, p. 273), as parties have to both collaborate with each other to reach a mutually beneficial agreement and at the same time, compete in order to achieve their individual goals.

The cooperative side of negotiations or integrative side, allows parties to create value, i.e. enlarge the pie or increase joint benefits, as parties are interdependent for reaching a deal that is going to be mutually beneficial, without which both parties would be worse off. The competitive or distributive side of a negotiation has the goal to claim value for oneself, or divide the pie, getting the maximum gain possible for a party (Moran et al. 2008, p. 99; Walton and McKersie 1965, pp. 3-5; Pruitt 1983, p. 167; Thompson 2009, p. 76).

This duality of negotiations, involving both technical and social aspects and cooperative and competitive sides, makes communication play a prominent role. Communication is necessary in order to exchange information, which will then allow to both create joint value and also to claim value for oneself. In order to maximize one's benefits, parties have to first increase the joint gains of a negotiation through communicating, as communication will help to identify possible trade-offs and compatibility in certain issues with different relative importance or preference for the parties (Walton and McKersie 1965, pp. 3-5; Lax and Sebenius 1986, p. 11)

Indeed, negotiation issues are critical to increase joint gains. Issues are defined as "open and debatable questions, events, problems, or other forthcoming developments that are open to discussion or dispute and whose realization can significantly influence the ability of an organization to achieve its objectives" (Bendahan et al. 2005, p. 141; Ansoff 1980, p. 133). Referring specifically to a negotiation, issues refer to all variables, aspects, points and conditions that are negotiated, i.e. those that parties discuss during the negotiation process, while having some apparent conflicting interests about them (Walton and McKersie 1965, p. 5). Issues can be adapted and reformulated taking into account one's underlying interests, in order to create negotiation value, instead of focusing on the positions regarding a certain issue (Lax and Sebenius 1986, p. 87). For example, the exchange of information regarding the relative importance given by parties to the different issues, leads to higher joint gains (Olekalns and Smith 2000, p. 528).

In distributive negotiations where there is only one issue to negotiate, for example, the price of a good, what one party wins is equivalent to what the other party loses. Conversely, if a negotiation contains more than one issue, there is room to exploit the differences on preferences, beliefs and capacities, and this way achieve an outcome that is better off for both parties (Thompson 2009, p. 76; Raiffa 1982, p. 14).

Moran et. al (2008, p.100) summarize different strategies leading to a creation of value involving issue management (according to Bazerman 2005; Pruitt 1983; Thompson 2005):

- a. Logrolling, which consists of conceding on issues of low importance for the one party for high importance issues.
- b. Dealing with different time preferences when one party is more impatient and values more short term profits whereas the other party is more patient and prefers long term profits.
- c. Compatibility, which is the identification of certain issues which parties already agree on.
- d. Adding issues, which involves the introduction of issues that were previously not part of the negotiation and can add value to it.
- e. Contingent contracts, which are based on different future expectations of the participant parties.

However, before starting the negotiation per se, parties are said to think about how to approach the negotiation and prepare it, as the “around-the-table” negotiation is only the last step of a larger process (Saunders 1985, p. 249).

One can distinguish between the preparation that each party performs separately and the pre-negotiation process, where both parties prepare the negotiation together.

In the individual preparation, Raiffa (1982) suggests a way in which parties should prepare. The participants should identify firstly their preferences and interests, including the Best Alternative to a Negotiated Agreement or BATNA (Fisher and Ury 1981), which is the point where they are indifferent between sealing the deal or not. Afterwards, they should collect information about the other party, based on the possible alternatives they might have, credentials, past negotiations, etc. Parties also should think about the conventions, i.e. the pre-negotiation process, about the logistics of the negotiation, they should then practice using simulated role-playing and then think about their aspirations (Raiffa 1982, pp. 126-127).

The pre-negotiation process according to Saunders (Saunders 1985, p. 262) has five steps. First of all, each party should define the problem or project, so that there is an understanding of the matters that are going to be addressed (Saunders 1985, p. 256). The second step is to produce a commitment, to make sure that the parties will accept the result of the negotiation. In PSFs however, it may be that parties agree not to agree, or not to engage in the sale. Thirdly, parties agree on how to negotiate, setting the negotiation protocol, and afterwards the actual negotiation starts and the results are then implemented, as fourth and fifth steps.

Similarly, according to Rosenschein and Zlotkin (1994) the protocol is the first part of a negotiation, as they draw a mode with four components: protocol, strategies, information state of agents and equilibrium. The negotiation protocol, which specifies the “rules of encounter” between parties, defining the “how” of a negotiation, its circumstances, allowed deals and sequences, and also if issues are going to be negotiated one by one or as combinations or packages (Fatima et al. 2004, p. 5). Hence, the negotiation protocol has to be decided before the negotiation begins, but at the same time, it can also involve certain negotiation, as in “negotiating what to negotiate”.

The order in which issues are negotiated is called negotiation agenda. The agenda can be exogenous, which means that the order is determined by the parties before starting the negotiation, or endogenous, which is when the order is not previously set and the parties decide which issue to negotiate next during the negotiation process itself (Fatima et al. 2004, p. 32).

According to Adair and Brett (2005, p. 34), the process of negotiation can be divided into four different stages: relational positioning, identifying the problem, generating solutions, and reaching agreement. In each of these stages, negotiators appear to have a different behavior, shifting from competitive to cooperative depending on the stage. This way, the stages of “relational positioning” and “generating solutions” are rather competitive, as parties firstly define their relationship and power positions and afterwards claim value. Conversely, the stages of “identifying the problem” and

“reaching an agreement” are more cooperative, as parties work together to create value by exchanging information about preferences and by trying to close the negotiation (Adair and Brett 2005, p. 35).

During all these phases and stages, parties may strategically think about the issues to negotiate and how to introduce them into the negotiation. Issue management can indeed help creating value, but can also be used for claiming value. The strategic management of issues and agenda setting in a negotiation are "by no means neutral to the outcome" (Schelling 1956, p. 289).

Although in theory researchers have set different strategies on how to create and claim value using issues, there is no systematic explanation on how issues are brought into the negotiation table and what consequences and effects may occur.

In order to understand how negotiation issues are managed and how the negotiation agenda is set in real-life sales negotiations, it is useful to focus on a certain sector where negotiators have a relative high degree of freedom to negotiate and where issues are not already predetermined, contrary to when a fixed product or service is being sold. That is why the choice of the object to study has been professional service firms, as will be explained in more detail in the following section.

## **2.2 Professional service firms as a suitable object of study**

“Professional Service Firm” (PSF) is a term used in everyday business life. Companies belonging to this category are very diverse, ranging from law and accounting firms, financial services, to architecture and media agencies, including the very much in fashion management consulting and software development firms (Greenwood et al. 2006, p. 1). The characteristics of this industry, as explained in this section, can have a significant impact on the way issues are negotiated, as PSFs "rely to a large extent on the interaction between knowledgeable buyers and highly educated service providers who engage in some form of joint problem solving activity" (Lowendahl 1997, p. 16). Therefore PSFs have been chosen as the object of study of this thesis.



However, the concept of PSFs has proven difficult to define. As Nordenflycht (2010, p. 155) states, some authors do not provide a definition of the term at all or define it using examples of firms belonging to the category, e.g. law firms or accounting firms, which makes research studies about PSFs difficult to generalize, as for example, findings about law firms might not be applicable to advertising agencies.

Some authors like Greenwood et al. (2006, p. 1) use a general definition, considering PSFs “organizations comprised primarily of professionals that facilitate economic and commercial exchange by providing advice to business”, whereas others like Nordenflycht prefer not to propose one but only state their characteristics: knowledge intensity, low capital intensity and a professionalized workforce (Nordenflycht 2010, p. 156).

The main characteristic of PSFs is in fact knowledge intensity, as professionals deal with complex or scientific knowledge, delivering it in form of intangible outputs or services (DeLong and Nanda 2003, p. xiii; Alvesson 2000, p. 1101; Lowendahl 2000, p. 20; Nordenflycht 2010; Greenwood et al. 2006).

Indeed, this knowledge is embedded in the “professionals”, which are a skilled workforce, well-educated and highly qualified in a certain area of expertise (Greenwood et al. 2006, p. 6; Nordenflycht 2010, p. 156). Furthermore, it is considered that professionals act according to an ethical code of conduct, embedded in their ideology and self-regulation (Lowendahl 2000, p. 20).

The services provided to their clients are highly customized to each particular client, requiring therefore a high degree of interaction between professionals and customers (Greenwood et al. 2006, p. 6; Greenwood et al. 2007, p. 221).

The ethical and customer-oriented sides can be exemplified in the so-called “One-Firm” firms, which are those management consulting companies, where loyalty and client service are some of their keys to success (Maister 1993, pp. 303-319).

However, some authors distinguish between PSFs or “pure” knowledge firms and high-technology companies, as they consider that knowledge is embedded in the professionals that provide customized intangible services to clients in the first case, whereas it is embedded in the products and technology in the second (Alvesson 2000, p. 1101).

In this thesis, PSFs are going to be considered in the broader sense, as the focus lies on the complexity of their outputs and client customization of services, where professionals have the knowledge and independence to directly negotiate project specifications with clients. Furthermore, the fact that ethical behavior is one of the characteristics of the sector is also a key point to be analyzed in bargaining behavior.

Moreover, PSFs can be segmented according to the positioning strategies they follow, based on the characteristics of the services they offer and determining other aspects of their businesses, such as leadership style and pricing, among others (Maister 1993, p. 27), noticing a trend towards a "productization" of professional services (DeLong et al. 2007, pp. 69-70). There are four positioning strategies along a continuum: commodity, procedure, experience and expertise, as displayed in Table 1, based on the research by Nanda (2004), grounded on the studies performed at Harvard by Maister (1993) and Gabarro (Gabarro 2004; DeLong et al. 2007) and also acknowledged by the management consulting company McKinsey (Hartung 2011).

Commodity PSFs (or "standardized services") take care of relatively simple client problems, delivering a standardized solution in an efficient way. An example of companies in this segment are these consulting firms that base their service on a certain software or that deliver standardized solutions, being closer to a product than to a "pure" service.

For procedure PSFs (or "customized services") the most important issues are methodology and systematization. Companies develop a certain method that can be adapted to a broad range of customer problems and will be successful as long as the procedures set are followed with rigor. The services offered by these firms are less

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