In Theory

A Network Perspective on Negotiation: What Is New and Why It Matters

Stefanos Mouzas

The resources that individual negotiators need to solve their problems are not available in a single, concentrated form, and they are certainly not available only within an isolated dyad itself. Instead, the necessary resources are widely dispersed among many actors within networks of business relationships. The best deal is unlikely to be fixed or predetermined, but is rather the outcome of long and time-consuming negotiations that will then affect further negotiations. In this article, I describe a network perspective on negotiation that considers the relevance and impact of three phenomena that I call (1) vast connectivity, (2) multiple constitutions, and (3) ongoing consent. I further illustrate the applicability of these three factors using examples of real-life negotiations.

Key words: negotiation, network, connectivity, constitution, consent, business relationships.

Introduction

In this article, I describe a network perspective on negotiation in the context of business relationships. I use the term *network* metaphorically to describe the embeddedness of negotiators in interconnected business relationships (Anderson, Håkansson, and Johanson 1994; Gnyawali and Madhavan 2001). I use the term *negotiation* to refer to the process of

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interaction by which interdependent business actors with different backgrounds, values, and interests seek jointly agreed-upon action to improve their lives (Lax and Sebenius 1986, 2004). The use of the terms *negotiation* and *network* underscores the inherent connectivity of business.

Despite the obvious relevance of connectivity to business, existing research has paid limited attention to the full impact of the ways in which actors are embedded in networks of business relationships (Ertel 1999; Movius and Susskind 2009). Negotiation research thus far has tended to focus on individual skills and on the examination of isolated dyadic interactions. Specifically, negotiation analysis typically has an "asymmetrically prescriptive/descriptive orientation," providing prescriptions of what an individual negotiator *should do* based on analysis of what others typically *actually do* (Sebenius 2009). For example, negotiation analysis would suggest that negotiators will typically choose to make a deal when that deal is better than their best alternative to the negotiated agreement. Such analysis raises the question of how we could best conceptualize what others typically *actually do*. In other words, how can we conceptualize the environment in which negotiators are embedded?

In this article, I argue that negotiators' environments are not faceless; rather, negotiators are embedded in networks of business relationships. Networks are ubiquitous — consider social networks, clubs, political networks, diplomatic networks, water networks, and business networks, among others. Networks can also be specific to a certain industry or region, and each is particular and unique.

I first became interested in networks of business relationships and their impact on negotiation twenty years ago, when I began to investigate manufacturer–retailer negotiations. Subsequently, I extended this research to consider negotiations between manufacturers and raw material suppliers, environmental negotiations over the reduction of carbon emissions, and negotiations between financial institutions. In this article, I describe what analyzing negotiations from a network perspective would involve and discuss the analytic and prescriptive value that such a perspective would have for researchers and practitioners.

The structure of the article is as follows. First, I discuss the prevalent dichotomy between the negotiator and the environment and point out the inherent bias in the literature toward a *science of choice*. Second, I argue that "no negotiation is an island" and that each negotiation affects and is affected by other negotiations in networks of business relationships. Third, I discuss three phenomena that I believe are germane to network perspectives on negotiation — (1) vast connectivity, (2) multiple constitutions, and (3) ongoing consent — and then illustrate their analytic and prescriptive applicability using real-life examples. Fourth, I suggest a number of new opportunities for researching negotiation in networks and discuss relevant implications for practice and theory.

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The Dichotomy between the Negotiator and the Environment

Negotiators are typically regarded as solitary actors who confront a faceless and often hostile environment. The pioneering negotiation analysis of Howard Raiffa (1982), for example, examined negotiators' decisions in a given environment. This kind of analysis is built on an "open system" conceptualization of negotiations, in which negotiation is viewed as an attempt to achieve harmony between the resources and activities of a negotiator and the characteristics of the environment. As a consequence, classic negotiation analysis presumes that individual actors maximize their personal utility and that firms maximize corporate profits in a given environment. Oliver Williamson (2002) has called this presumption, which has had a profound impact on the way that we view negotiation problems, the *science of choice*.

Consider the development of negotiation theory following World War Two. With roots in game theory and decision analysis (Von Neumann and Morgenstern 1944; Nash 1950; Luce and Raiffa 1957; Roth 1985), negotiation theory used simple but elegant mathematical models to express the perceived dichotomy between the negotiator and the environment. Thomas Schelling (1960) criticized traditional game theorists for failing to recognize that negotiators actually achieve much better coordination when they are able to rely upon *focal points*, which he defined as intuitively perceived mutual expectations, shared appreciations, preoccupations, obsessions, and sensitivities to suggestions. In a series of simple experimental studies, he asked individuals to imagine a situation in which they were unable to communicate but wanted to meet each other in New York. The majority of respondents chose Grand Central Station as their meeting location because this place, at that time, provided a "focal point for each person's expectation of what the other expects him to expect to be expected to do" (Schelling 1960: 57). Judith Mehta, Chris Starmer, and Robert Sugden (1994) repeated Schelling's (1960) experiment in a more formal setting, offering incentives in which they confirmed that people are more successful at coordinating among themselves if they rely on a set of prominent and salient focal points.

Deviations from game theory approaches became frequent. For example, David Lax and James Sebenius (1986, 2002) have pointed out that actors' alternatives to negotiated agreements play a large role in shaping negotiations and that changes in the actors' alternatives may have as great an effect on the outcome (or even greater) than the bargaining tactics they use during negotiations. Situational changes, as new information becomes available, can change the range of reservation values and possible acceptable settlements within negotiations (Susskind 2011). Because the actors' alternatives define the limits to negotiation, Lax and Sebenius (1991: 98)

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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." Lax and Sebenius (2002) have also criticized prevalent views of negotiation involving interpersonal dynamics and tactics as "one-dimensional." Instead, they proposed a "three-dimensional" approach, in which the second dimension, "deal-crafting," focuses on the substance of the effort to create joint value and the third dimension involves entrepreneurial moves in which negotiators "change the game" advantageously, typically by improving their situation "away from the table" and, thus, improving their alternatives.

Over the last three decades, the deviation from game theory approaches to negotiation has been accompanied by significant advances in behavioral studies. Building on research in psychology and neuroscience, the examination of value creation has broadened to consider (1) negotiators' preconceptions and flaws in decision making (Kahneman and Tversky 1979, 1984; Bazerman and Neale 1992; Bazerman et al. 2000; Sunstein and Thaler 2008) and (2) social and personal factors as well as barriers to dispute resolution (Fisher and Ury 1981; Mnookin and Susskind 1999; Mnookin, Peppet, and Tulumello 2000; Thompson 2001; Mnookin 2003; Nelson and Wheeler 2004).

Recent advances in behavioral studies have provided intriguing insights into behavioral biases and decision-making errors (Laibson and Zeckhauser 1998; Glaeser et al. 2000; Bazerman, Baron, and Shonk 2001; McClure et al. 2004), but they have not fundamentally challenged negotiation models that are based on a dichotomy between the negotiator and the environment.

Empirical research has shown that negotiators consistently overlook opportunities for *wise trades* in their environment; in other words, they consistently ignore possibilities to create value (Bazerman, Baron, and Shonk 2001). What explains this propensity? Because wise trades require a shift in the negotiators' self-perception from *self as independent* to *self as part* of a larger whole (Bigelow 1992), we could posit that wise trades are more likely to occur among actors who see the broader picture of their environment and the connectedness of their actions. Although behavioral research has advanced our knowledge of how psychological, social, and cultural factors affect interpersonal negotiations, this research is built on a science of atomistic choices, on the idea that negotiators will make decisions and craft negotiations based on their own resources and skills in a faceless environment.

No Negotiation Is an Island

Negotiation is most commonly conceptualized in scholarly research and literature as a dyadic, interpersonal bargaining process. For example,

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manufacturers typically must negotiate dyadically with many customers and suppliers over such issues as offerings, prices, property rights, and payment terms. But no negotiation takes place in isolation; each negotiation is part of a complex relationship between and among businesses, and each negotiation affects — and is affected by — other relationships and negotiations (Håkansson and Snehota 1989). Every individual business relationship is connected to other relationships, forming a network structure that connects and influences a wide array of resources, both proximate and distant (Powell 1990; Nohria and Eccles 1992; Uzzi 1997; Dyer and Singh 1998; Zaheer and Bell 2005).

Consider an actual case involving consumer goods manufacturers and grocery retailers (Mouzas and Ford 2003). Morningstar and Deluxe are both multinational grocery producers (all names have been changed). Amecon, a leading American retail and grocery chain whose slogan is "everyday low prices," is a newcomer in many European countries; Econ is a European retailer and grocery chain that focuses on discount outlets and private labels. Following successful negotiations, Amecon appointed Deluxe as its "category captain" in the breakfast cereal category. A category captain is a title that is conferred by the retailer to *preferred suppliers*. It is usually the leading manufacturer within a product category and enjoys the privilege of a more intensive collaboration or "partnership" in category management, merchandising, and shelf design projects (Araujo and Mouzas 1998; Mouzas and Araujo 2000).

Retailer Amecon and manufacturer Deluxe agreed to work together to improve their practices and policies in such areas as pricing, shelf design, and product promotion. To emphasize their determination to address consumer needs in a cost-efficient way, Amecon and Deluxe called their business agreement an "efficient consumer response."

After learning of the agreement between Amecon and Deluxe, manufacturer Morningstar, which is Deluxe's competitor, asked to renegotiate its existing business agreement with Amecon. After long and challenging negotiations, Amecon and Morningstar agreed to implement permanent price offers for Morningstar products. Morningstar promised not to raise wholesale prices, and retailer Amecon agreed to provide extra point-of-sale displays for Morningstar products.

These newly negotiated deals had an impact on other relationships as well. Retailer Econ observed warily the renegotiated deals between its rival retailer Amecon and manufacturer Morningstar. Through its negotiations with other manufacturers, retailer Econ learned of an excess in production capacity among many major food manufacturers in Central Europe. Econ also realized Amecon's entry had made the discount grocery market more competitive. For example, the price offers that Amecon and Morningstar had negotiated made it impossible for Econ to guarantee that its branded products were sold at the lowest possible prices in the market. Econ

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responded by renegotiating its own deal with Morningstar and requested that the manufacturer produce products under Econ's private label. Morningstar rejected this request, saying that it sold only its own brands and "we do not produce for anybody else."

Consequently, Econ removed all of Morningstar's brands from its stores in Germany, Austria, and Switzerland. Morningstar lost 30 percent of its revenues in Central Europe. Econ replaced Morningstar's branded products with private label versions produced by smaller manufacturers. The impact of its failure to reach a deal with Econ surprised Morningstar. The company fired its senior managers and, to recover lost revenues, it negotiated deals to reach new markets, including convenience stores and gas stations.

This case exemplifies that negotiations do not take place in isolation. Viewing negotiation through a network perspective can help negotiators see both constraints and options more clearly. Specifically, in this case, the partnership between retailer Amecon and manufacturer Deluxe encouraged manufacturer Morningstar to renegotiate its deals with Amecon. These deals then affected a series of other seemingly unrelated business relationships, such as the end of Morningstar's relationship with Econ and its consequent negotiations with convenience stores. We know from previous literature that as soon as the number of negotiation actors increases to more than two, a dyad is transformed into a network of actors in which coalitions are possible (Susskind, McKearnan, and Thomas-Larmer 1999; Susskind et al. 2005; Islam and Susskind 2013). If we analyzed these negotiations in isolation, we might have missed these important effects.

Consider the operation of markets; markets comprise interconnected networks of exchange relationships (Kranton and Minehart 2001). Many researchers have analyzed market interaction processes as networks (Nohria and Eccles 1992; Gnyawali and Madhavan 2001; Zaheer and Bell 2005; Mouzas, Henneberg, and Naudé 2008). Looking at negotiation through a network lens enables analysts to see beyond individual negotiators and isolated negotiation episodes to examine whole networks of business relationships as the units of analysis. This perspective makes the analyst more sensitive to developments over time. Changes within network relationships affect both the negotiator's position within the network and the structure of the network itself. Hence, the analyst can then conceptualize negotiation as a set of relationships with other counterparts whose identities and relationships also matter.

What Is New and Why It Matters

I have identified three phenomena that are particularly relevant to a network perspective on negotiation: *vast connectivity*, *multiple constitutions*, and *ongoing consent*. In this section, I describe these phenomena and discuss their impact on negotiation.

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Vast Connectivity

How many actors are needed to form a network? According to Georg Simmel (1950), it is the leap from the dyad to a triad that creates a network. Consider the dyadic negotiations between the governments of Nepal and India. As India's population rapidly grew, the country sought increasing access to water coming from its northern neighbor. When India threatened Nepal with military action to obtain more water, Nepal reconsidered its negotiation strategy and sought support from China. The formation of an alliance between China and Nepal turned dyadic negotiations into network negotiations, changing the inherent imbalance and paving the way for settlement between Nepal and India (Islam and Susskind 2013).

In a triad, actors may be readily visible. Consider the example of a triad among a supplier, a customer, and an intermediary service provider. In the real-life business landscape, however, the network may consist not so much of the visible actors themselves, but of the relationships and subtle interdependencies between them, which may be more or less invisible (Ford and Mouzas 2008).

Consider the vast connectivity in the networks in which financial institutions and investors are embedded. Each bank, insurer, and financial services firm is connected in a web of ties — each of varying strength — with such additional actors as households, other banks and firms, rating agencies, companies, governments, and charities. Within these networks, negotiators may perform a variety of roles. Households, for example, are savers, investors, and borrowers (Shiller 1990, 2008). Within business networks, financial institutions can link creditors to borrowers (Eccles and Crane 1988).

Because of the near infinite connectivity within these networks, most negotiated deals will affect other entities in the network even though they are not parties in that negotiation. The severe crisis that followed defaults in the subprime mortgage market in 2007 and the wider liquidity shortage afterward demonstrate how contagious network effects can be (Shiller 2008; Akerlof and Shiller 2009; Haldane 2009). In individual negotiations between households and retail banks or retail banks and investment banks during that time, parties failed to consider the network effects of their agreements, overweighing the stability of conditions in their environments and underweighing probable risks, such as the availability of liquidity in the financial markets and the volatility of real estate prices.

Vast connectivity poses a serious challenge for negotiators (and for negotiation analysts), making it difficult to determine the structure and actual boundaries of a business network. It is challenging to capture the multiplicity of simultaneous, interconnected negotiations within a network or to isolate the impact of any one action, reaction, or re-reaction and assess its significance for the network as a whole or for individual actors.

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Multiple Constitutions

Much negotiation research focuses on how negotiators can exchange complementary resources to create and appropriate incremental value (Raiffa 1982; Lax and Sebenius 1986; Sebenius 1992; Allred 2000). These exchange processes do not occur in a vacuum and are based on multiple constitutions that derive from agreements, precedents, rules, and conventions that can constrain as well as enable exchanges (Choi 1993; Young 1993; Mouzas and Ford 2009).

Constitutions guide the actors' initiatives and responses to efforts to create and appropriate value and include cultural customs and norms as well as explicit laws and regulations. Constitutions may be implicit (e.g., conventions) or explicit (rules); they may also include some rights and powers that individual actors in the negotiation may possess, acquire, or transfer. Nonetheless, constitutions have not been created by individual actors. Constitutions evolve as people coordinate their initiatives and responses by drawing on mutually perceived *focal points* (Schelling 1960; Sugden 1995; Nee 1998). For example, in labor negotiations or collective bargaining, these focal points are often expressed as *ground rules* (Walton and McKersie 1991; Walton, Cutcher-Gershenfeld, and McKersie 1994). These ground rules function as "agreed-upon principles to resolve more controversial issues" (Strauss 1999: 581). Such stipulations increase the "predictability of group member behavior and give expression to a group's central values" (Feldman 1984: 47), but they may limit the types of relationships in which the businesses are able to participate (Håkansson and Ford 2002). Negotiators must identify the multiple constitutions and agree with their counterparts on a set of mutually shared expectations and ground rules to move forward.

Consider the example of umbrella agreements between business partners. Umbrella agreements are framework contracts that specify the constitutions of how counterparts will work together (Mouzas 2006; Mouzas and Furmston 2008). These agreements occur in all sorts of business alliances, strategic partnerships, collaborations, or other give-and-take exchange processes between individuals or companies (Mouzas and Blois 2013).

Defining the constitutions of how negotiation counterparts intend to relate to each other increases the parties' levels of certainty regarding the conditions under which exchanges will take place. Clarity on constitutions can significantly reduce *transaction costs* by reducing the time and effort it takes to select, manage, oversee, and verify single transactions in networks of exchange relationships. Constitutions also enhance the legitimacy of subsequent bargaining processes because counterparts give their consent to certain rules and processes; for example, counterparts may agree that in the case of a dispute, they will proceed to an out-of-court dispute resolution process. Negotiators may agree on notification or disclosure requirements

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or periodic performance reviews. For example, in manufacturer–retailer networks, manufacturers and retailers have agreed annual renegotiation processes.

The legitimacy of constitutions can be based upon the evolution of consent over time (Barnett 1986). Hence, constitutions evolve over time in several ways, depending on the actors' consent and how consent is sought. For example, consent may be sought through majority voting or broader processes of consultation and joint problem-solving (Susskind, McKearnan, and Thomas-Larmer 1999; Susskind 2006; Islam and Susskind 2013).

Ongoing Consent

The likelihood that a negotiation will produce mutual gains for all parties improves if the exchange involves an "actual meeting of minds" (Kronman and Posner 1979: 5). In other words, mutual gains are maximized when the exchange is based on informed and voluntary consent. In this way, "consent is the criterion that distinguishes enforceable from unenforceable commitments" (Barnett 1992: 1176).

Looking at negotiations through a network perspective would involve identifying all those events that would require the parties' consent. Consider the case of Amecon and Morningstar. The negotiated price agreements between Amecon and Morningstar made it impossible for retailer Econ to guarantee that their branded products were sold at the lowest possible prices in the market. The retailer Econ needed the manufacturer Morningstar to produce price-competitive private labels but failed to obtain Morningstar's consent.

Examining negotiation through a network perspective suggests that consent requires ongoing updating. This need for an ongoing consent may be attributed to the complexity of two problems in networks of relationships. First, information is more likely to be asymmetric in networks than in dyads. This asymmetry of information creates significant barriers to identifying potential sources of value creation with certainty (Shamir 2013). Second, even if a deal has been negotiated, unforeseen contingencies in networks of relationships, such as external circumstances, bankruptcies, strikes, wars, or natural disasters, may interrupt the continuation of performance (Maskin and Tirole 1999).

Negotiators may subsequently receive new competitive offers from third parties or may need to reconsider the exclusivity of their supply or subcontracting policies. As negotiators continually negotiate with themselves as they negotiate with others, their reservation values change over time (Susskind 2011). Negotiators know that all the above reasons could force them at any time to substantially renegotiate their deal (Segal 1999).

Renegotiation in networks can be facilitated by periodic or quarterly meetings (quarterly business reviews are more common among public companies because of reporting requirements) in which counterparts

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review their business performance. Consent might require an update because of new assignments that emerge from third parties, requests from related suppliers, or the transfer of property rights from/or to third parties. Although negotiators cannot "just capitulate" against the network complexity (Henneberg, Naudé, and Mouzas 2010: 355), they need to address these problems and negotiate with their counterparts consultation processes that facilitate an ongoing consent.

Implications for Research and Practice

In this article, I have argued that negotiation researchers should broaden their unit of analysis to look beyond dyadic negotiations occurring in isolation to consider the impact that negotiations can have on the parties' larger networks, and, vice versa, to consider how networks affect dyadic negotiations. Specifically, I suggest that negotiation analysis pay particular attention to the connectivity among parties, the diversity of the norms and conventions, and the fluid nature of parties' capacity for agreement.

As the business landscape becomes ever more globalized and complex, taking networks into consideration becomes even more necessary. Within this broad framework, particular areas of research that deserve more exploration include the specific effect of dyadic negotiations across the negotiators' immediate and wider networks (Nohria and Eccles 1992; Kranton and Minehart 2001; Mouzas, Henneberg, and Naudé 2008); the sequencing of negotiations between multiple actors over time and the effects of that sequencing (Sebenius 1992); the effect of adding and subtracting issues and parties or "negotiation arithmetic" (Sebenius 1983; Watkins 2003); negotiating by using modular design (Baldwin and Clark 1996; Watkins 2003); the process of trading off short-term and long-term costs and benefits within dyads and across networks (Ford and Mouzas 2010); and herd behavior in networks (Scharfstein and Stein 1990; Banerjee 1992; Avery and Zemsky 1998; Mouzas and Ford 2011).

Perhaps Morningstar would have made a different deal with Amecon if it could have foreseen the impact that deal would have on its relationship with Econ. Or conversely, Morningstar could have negotiated a deal with Econ that allows Econ to remain competitive in its networks. At the very least, Morningstar's negotiators might have been better prepared to negotiate with both Amecon and Econ if they had realized how linked the two negotiations truly were.

Because this is a new approach to negotiation research, and relevant data are sparse, the practice implications of a network analytic approach to negotiation remain largely unknown. Parties may never be able to fully consider the impact that a single negotiation will have across their often vast and complex networks. Nonetheless, we would logically expect that corporate deal planning could only be improved when network effects are taken into consideration.

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As the counterparts' underlying interests, issues, and positions evolve in interconnected relationships, negotiators face formidable uncertainties — the more complex the network, the greater the uncertainty. Reducing uncertainty represents a real challenge for negotiators (Huff 1978; Jauch and Kraft 1986; Sims 2001). As Michael Wheeler wrote, "The better we manage and cope with the inherent uncertainty and unpredictability of negotiation, the more effective we will be" (Wheeler 2013: 257). People tend to focus on more immediate and proximate circumstances and events; for example, they underemphasize the more distant risks, such as those dispersed across a network (Kahneman and Tversky 1979; Kahneman, Slovic, and Tversky 1982).

It is, indeed, difficult to assign probabilities to unknown events or contingencies (Knight 1921), but taking a network perspective on negotiation could turn uncertainty into a source for continuous adaptation. For example, negotiators could pursue *adaptive learning* that involves "observing, learning and adapting to changing circumstances" (Islam and Susskind 2013: 97). Negotiators could pursue an adaptive learning that enables them to *recognize*, *prioritize*, and *mobilize* responses to threats that emerge (Watkins and Bazerman 2003).

Taking a network approach involves recognizing that negotiation behavior can be precedent setting (McMeel 2003); that an action that is beneficial for a business in one negotiation episode could have a detrimental impact on that business in different negotiation episodes, just as Morningstar found that the low-price guarantee it offered Amecon threatened its relationship with Econ.

To avoid a wholesale and time-consuming renegotiation of existing deals, negotiators could consider the use of umbrella agreements in networks of business relationships (Mouzas and Ford 2006). In this way, negotiators could define the basic principles and norms that govern future deals, and they could arrange processes that facilitate a continuous assessment and a jointly decided action.

Conclusion

Negotiations rarely occur in isolation; instead, each negotiation affects and is affected by other negotiations that take place within networks of exchange relationships. Analyzing negotiations from a network perspective enables the negotiation analyst to operate at a higher level of aggregation than alternative approaches. Specifically, taking a network perspective highlights the importance of the parties' connectivity to other entities within a network that goes beyond their immediate negotiation counterparts. Taking a network perspective can also highlight the role of precedent, how conventions, rules, and agreements operating in one negotiation can have impacts on other business relationships. Finally, taking a network perspective can shed light on how parties' consent to certain agreements and

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relationships can change not only in the course of a single negotiation, but also in response to network changes.

Taking a network perspective on negotiation increases our understanding of negotiation developments over time. As negotiators engage in give-and-take processes within interconnected business relationships, the bargaining effects are not limited just to the relationship with a particular counterpart, but can spread over time to other more distant relationships throughout the network. In analyzing the phenomena of *vast connectivity*, *multiple constitutions*, and *ongoing consent*, negotiation scholarship could shed more light into how negotiations are related in networks of business relationships.

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