

Analysis of Complex Business Negotiations: Contributions from Agency-Theory

Authors : Jan Van Uden

Abstract : The paper reviews classical agency-theory and its contributions to the analysis of complex business negotiations and gives an approach for the modification of the basic agency-model in order to examine the negotiation specific dimensions of agency-problems. By illustrating fundamental potentials for the modification of agency-theory in context of business negotiations the paper highlights recent empirical research that investigates agent-based negotiations and inter-team constellations. A general theoretical analysis of complex negotiation would be based on a two-level approach. First, the modification of the basic agency-model in order to illustrate the organizational context of business negotiations (i.e., multi-agent issues, common-agencies, multi-period models and the concept of bounded rationality). Second, the application of the modified agency-model on complex business negotiations to identify agency-problems and relating areas of risk in the negotiation process. The paper is placed on the first level of analysis - the modification. The method builds on the one hand on insights from behavior decision research (BRD) and on the other hand on findings from agency-theory as normative directives to the modification of the basic model. Through neoclassical assumptions concerning the fundamental aspects of agency-relationships in business negotiations (i.e., asymmetric information, self-interest, risk preferences and conflict of interests), agency-theory helps to draw solutions on stated worst-case-scenarios taken from the daily negotiation routine. As agency-theory is the only universal approach able to identify trade-offs between certain aspects of economic cooperation, insights obtained provide a deeper understanding of the forces that shape business negotiation complexity. The need for a modification of the basic model is illustrated by highlighting selected issues of business negotiations from agency-theory perspective: Negotiation Teams require a multi-agent approach under the condition that often decision-makers as superior-agents are part of the team. The diversity of competences and decision-making authority is a phenomenon that overrides the assumptions of classical agency-theory and varies greatly in context of certain forms of business negotiations. Further, the basic model is bound to dyadic relationships preceded by the delegation of decision-making authority and builds on a contractual created (vertical) hierarchy. As a result, horizontal dynamics within the negotiation team playing an important role for negotiation success are therefore not considered in the investigation of agency-problems. Also, the trade-off between short-term relationships within the negotiation sphere and the long-term relationships of the corporate sphere calls for a multi-period perspective taking into account the sphere-specific governance-mechanisms already established (i.e., reward and monitoring systems). Within the analysis, the implementation of bounded rationality is closely related to findings from BRD to assess the impact of negotiation behavior on underlying principal-agent-relationships. As empirical findings show, the disclosure and reservation of information to the agent affect his negotiation behavior as well as final negotiation outcomes. Last, in context of business negotiations, asymmetric information is often intended by decision-makers acting as superior-agents or principals which calls for a bilateral risk-approach to agency-relations.

Keywords : business negotiations, agency-theory, negotiation analysis, interteam negotiations

Conference Title : ICCRMN 2019 : International Conference on Conflict Resolution, Management and Negotiation

Conference Location : London, United Kingdom

Conference Dates : January 21-22, 2019