

# The influence of Variable pay on integrative negotiation behaviour: A multiple case study

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## ABSTRACT,

*The way of doing business has various approaches. It can be a zero-sum game, or one where both parties win. This latter, integrative approach is important to succeed in the professional environment. Therefore this study aims to provides insights as to whether this behaviour can be promoted and incentivized via the usage of variable pay. To find this out a multiple case study of Dutch companies was done. Via interviews and a qualitative approach insights were gathered of both fixed income and variable groups. One of the findings is that both groups put high emphasis on asking the right questions from the counterparty to understand what it exactly is what they need.. Furthermore both groups in the sample strived cooperate with the counterparty, therefore no direct influences has been found by variable pay. Only that fixed income provides less stress and more stability. Limitations of this study include a limited sample size, and the reliance on interview responses for the results. In practice this can imply that it might be worth considering to switch from variable pay to non-variably pay in regard to negotiation behaviour.*

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## Keywords

Variable-pay, case study, negotiations, integrative negotiation, risk aversion, incentives, distributive negotiations.

## 1. INTRODUCTION

*“As any long journey, which begins with a single step, so does negotiation begin with the first step which is recognition of one’s natural style.” (Miller, 2014 p.209)*

The quote above illustrates how negotiation comes in various shapes and sizes. Yet that we all tend to have a preference to some extent for a certain way of approaching this. One way to chart out these preferences is done by Thomas and Kilmann (1977) with their “Thomas-Kilmann Conflict Mode Instrument” (“TKI”). As Miller (2014) emphasises, it is important to adopt the right style at the right time. Even when that does not come naturally.

This paper will be looking into the way individuals act during negotiations. And explore the possibilities to promote certain negotiation behaviour over others. More specifically at the way variable pay can incentivise the application of integrative negotiation behaviour. As to create win-win situation for both negotiating parties.

Within the TKI model this integrative negotiation behaviour is described as the collaborative style. Which shows a high concern for oneself and the other party. The style is both assertive and cooperative. This approach strives to fully satisfy both parties. To adequately achieve this it is needed for both parties to delve deep into the negotiation and identify underlying concerns (Miller, 2014)

The variable pay in this case is a financial incentive. This can be for example in the form of a bonus when targets are met or continued profit sharing from a certain client. As Miller (2014) suggests, the problem arises when the negotiation tactics used by the individual are not in line with corporate interest.

A reason to introduce variable pay incentives is to build upon the alignment with corporate interest and is grounded in agency theory. Just like the work of Damiani and Ricci (2014) This paper assumes that individual incentive plans have a positive effect on motivation. However, even though motivation is considered to be a key role for individual performance, it is not the sole factor (McCloy, Campbell, and Cudeck, 1994). Job-relevant knowledge, skills, and abilities also play a role in individual performance (McCloy et al., 1994). According to Mitchell (1997) it is counterproductive to emphasize monetary rewards when the poor performance is not due to motivation. But the rather the skill and knowledge oriented factors. This conclusion can be linked back to negotiations, as negotiating can be considered seen as an interpersonal skill. This provides friction with the usage of variable pay, as it is stated in the paragraph above that variable incentives mostly works on motivation. Yet negotiation is a skill. Therefore that will also be the main question of this paper;

*“Does variable pay positively influence integrative negotiation behaviour in a B2B buyer/seller setting?”*

To further answer this question, a sub question is also formulated;

*“ Does the use of variable pay influence how negotiators prepare?”*

## 2. LITERATURE REVIEW

In this literature review the main terminology will be explored. First, variable pay will be introduced. And secondly

the negotiation section will be introduced. Starting broadly with negotiations in general and eventually funnelling down to integrative negotiation behaviour.

### 2.1 What is variable pay?

For the term variable pay the description given by Kuhn and Yockey (2003) will be used. Which is as followed; “ Variable pay subsumes many different types of compensation systems, including bonuses, gainsharing, and profit-sharing, but the defining feature is that rewards must be re-earned each period, avoiding the compounding effect of traditional merit raises and across-the-board pay increases; hence these pay systems are also termed contingent pay.” (Kuhn and Yockey, 2003, p.323). Furthermore they concluded several points in regard to variable pay.

Kuhn and Yockey (2003) state that people are rather loss averse instead of risk averse. Therefore, variable pay is likely dependant on whether an individual focuses on potential losses, or potential gains. Following the work of Kahneman and Tversky (1979) which claims that when people are given the option between; a certain positive option or a gamble whose expected value is greater than the certain option. In this study, the participants, generally opted for the certain option. This loss averse trait can be said to favour a non-variable compensation for their work, as this would give a certain positive outcome.

Camerer and Lovallo, (1999) suggests that companies offering large individual performance bonuses may attract above-average recruits. This is supported by previous research which has found that an employee's productivity increased by an average of 30% after the introduction of individual monetary incentives. Other types of rewards and interventions do not seem to have such a powerful effect (Locke, Feren, McCaleb, Shaw, and Denny, 1980). However, this is not the end-all-be-all to boost performance. In more recent research a more contrary result was found where the Dutch pension fund industry shows that the net total returns of pension funds that pay performance fees to asset managers are not significantly higher or lower than the net returns of pension funds that do not pay performance fees (Broeders, van Oord and Rijsbergen, 2019). This further supports the point that sole monetary compensation is not the only answer to generate better results.

### 2.2 Types of negotiation behaviour

First of a clear definition needs to be giving to term negotiation. According to Moran and Ritov (2007) negotiation can be considered a continual interpersonal interactive process of decision making, in which participants perceive and interpret the information available to them and proceed to act on these perceptions. Negotiation is a “ubiquitous social activity” that occurs “anytime people cannot achieve their goals without the cooperation of others” (Thompson, Wang, & Gunia, 2010, p. 492). From here more elaboration will be given to negotiation behaviour and then finally more specifically to integrative negotiation behaviour.

#### 2.2.1. Negotiation behaviour

The next relevant layer is negotiation behaviour. Negotiation behaviour is defined as the set of visible communication tactics (verbal and non-verbal) or actions that every negotiator displays to the opponent (Adler, Brahm, & Graham, 1992). This can be further divided into two sub categories namely; Competitive,

also known as distributive behaviour. And integrative negotiation behaviour. Competitive behaviour can be considered a zero-sum game where the negotiation outcome is considered either a win or a loss by the participants (Gelfand, Fulmer, & Severance, 2011).

This behaviour is also associated with ineffective communicative interaction because negotiators tend to use hard tactics such as demands, negatives, threats, conversational overlaps and touching (Adler et al., 1992; Graham, 1985), in turn this then can cause hindrance in the economic activities of both parties as for example the buyer might tend to switch from supplier. This is supported by Ghauri (2003) which states that negotiation atmosphere can be impacted negatively. In the case that competitive behaviour is present, a more conflictive atmosphere arises and in turn the long term expectations of the business value will decrease.

### 2.2.2. Integrative negotiation

Finally, the negotiation behaviour that this research will look at is the integrative approach. Thompson (2001) states that many negotiation situations contain integrative potential, i.e., an increase in the joint gain available to the negotiators over and above the joint gain afforded by a fixed-sum solution. Furthermore, previous research indicates that Integrative agreements, in contrast to competitive ones, reconcile the interests of both parties, and lead to higher joint benefit (Pruitt, 1983; Walton & McKersie, 1965). Thompson (2010, p.493), states that integrative negotiation is achieved when “the extent to which the negotiated outcome satisfies the interests of both parties in a way that implies the outcome cannot be improved upon without hurting one or more of the parties involved”. Accompanied behaviour will be considered as behaviour which involves an open, clear and honest information exchange. Negotiators who display such behaviour use tactics such as questioning and self-disclosures (Adler et al., 1992; Graham, 1985; Saorín-Iborra, 2008). Ghauri and Fang (2001), suggest that negotiations orientated towards building a relationship of trust between the parties requires time in order to gather information about both parties’ interests and then to establish as many mutually satisfactory options as possible. Thus indicating that mutual trust could also be a contributing factor to integrative negotiations.

## 3. METHODOLOGY

Because the research attempts gain conclusions from practice and then compare them to the current literature. Interviews will be used as its data source.

A qualitative approach was chosen since the aim of qualitative research is to explain rather than predict phenomena (Leavy, 1994) and to understand phenomena rather than measure them (Gordon and Langmaid, 1988). This is in line with the purpose of this research, where an attempt is being made to see how variable pay and integrative negotiation behaviour relate to one and other, if at all.

Therefore the case study with interviews is applicable for this research. To promote the degree of cooperation with the interviewed companies the data will be anonymized. The terms: “the company”, “the firm” will be used interchangeably to indicate the company where the interviews have been taken. The goals of the interviews is to explore the two main research variables, variable pay and integrative negotiation behaviour. Interview techniques were aimed at achieving both diversity

and consistency of responses. This ensured the researcher understood what was meant as well as allowed for a wide range of issues to be discussed.

### 3.1 Sample

The interview data will be collected from companies who operate in a B2B setting and engage in buyer/supplier relationships. As this is not a sole case study the sample consists of interviewees from multiple companies. The participants will need to have actively partaken in negotiation within the last 3 years. Also a sample is required from participants which do and do not receive a variable pay compensation. To create a comparable sample set. They also have to have had partook in negotiations within the last 3 years. For this research a non-probabilistic sampling method will be used. This means that not all individuals in the population have an equal chance of being selected for an interview. As this research is subject to the willingness of the companies to co-operate and share company sensitive data in regard to variable pay.

### 3.2. Data collection

Interviews will be taped with permission of the interviewees. This is in line with ethical motives and to ensure that the respondents are fully aware of the research design and its intent.

Consequently this will provide the possibility to put more emphasis on the interview itself rather than being occupied with its transcription. Afterwards the transcripts will also be provided to the respondents to provide them the reassurance that a proper transcription has been made, this is a preventative measure to ensure that no data will be taken out of context. For the interview an interview guide will be used (Appendix A) consisting of semi-structured questions for the interviewer. The data was collected over a period of approximately 6 weeks. With the sessions lasting for about an hour. The interview guide is allowed to change as interviewing progresses to incorporate new insights. Furthermore the interview tapes and transcripts will be treated confidentially.

### 3.3. Data analysis

Following the collected interviews and transcription, the data will need to be reduced to a more workable format than sole transcripts. Therefore categories will be constructed from the transcripts for both variable pay and negotiation behaviour. For this research a broad approach will be taken into variable pay, whether it is present or not. The emphasis of the exact form of variable pay is out of the scope of this research. For the negotiation behaviour category will be broken down into integrative and non- integrative negotiation behaviour. In both the preparation and execution phase of negotiations. Via coding the key measures that the company utilises will be used to identified. For the analysis Ragin’s (2014) Qualitative Comparative Analysis (QCA) method will be used to understand and interpret the findings from this research. The interviews will be summarised and compared to one and other, and the literature. With the insight provided from both variable and non-variable pay perspectives, further understanding of negotiation behaviour can be gained.

## 4. FINDINGS AND ANALYSIS

## **4.1. Analysis of interview with company A**

### *4.1.1. Interview with the team leader of real estate management at company A.*

The interview with the company was conducted with the team leader of real estate and facility management at company A. The team has a real estate portfolio consisting of 135 lots. The negotiations occur on a regular basis, meaning daily/weekly and normally the elapsed time can vary between weeks to several months, depending on the complexity. The negotiations consists of theme's like buying/selling and renting out lots. The interviewee holds final responsibility and therefore does not actively participate in every single negotiation, but steps in when the complexity of the negotiation increases. The interviewee is active in the real estate sector for at least 17 years and enjoyed specific negotiation training long ago. Negotiation team size varies from 1 on 1 up to 5 headed teams on extremely rare occasions. A preferences has been spoken for teams of 2 for more complex situations. As this provides a sparring partner for the duration of the negotiation. Furthermore this also helps with maintaining the overview of the process.

The counterparty varies from professional real estate portfolio managers to individuals who invest in the real estate market. The general rule is that there is no variable pay scheme in place at Company A. However, There are remunerations in place for delivery of good work. In the form of (partially) funding of further education and a low capped (<5% of annual income.) can be earned for good functioning or completing a big project.

### *4.1.2. The Initiation and preparation of the negotiation process at company A*

The establishment of first contact varies. As it is contingent on what company A tries to achieve. When they have a buying role then initial information is put out by the counterparty. However, when company A is the seller then they put out the initial information, or actively seek buyers.

In the first information given, company A is obliged by law to operate via open tenders and be open for offers from any party and therefore have a forced high degree of information sharing with the counterparty.

Because of this legislation a significant amount of the paperwork has been standardised. Another reason why this occurs is due to company A predominantly being the selling/renting party. Therefore, it is possible to pre-emptively standardise and construct an initial offer. Contingent on the situation Company A does not always keep a destination plan in mind and is also open for input from the counterparty.

### *4.1.3. The execution of the negotiation at company A*

At the beginning of the negotiation there is no formal agenda established. The main issues that are being discussed consider price, quantities and legislative topics. For company A it is very important to understand the position and wishes of the counterparty. The interviewee states that that is where the key to a positive outcome lies. To understand the priorities of the one who is one the other site of the table. Further elaboration on this topic is given by stressing the necessity of asking the right questions and where needed to demand that the counterparty provides evidence to support their claims. If the counterparty cannot provide the requested evidence, then in the eyes of company A, their negotiation position weakens.

The degree of formality varies. It can go from informal and personal to formal and strictly business. The behaviour of the counterparty does play a role within this aspect. Once the complexity increases and the counterparty starts to document the negotiations. It is taken as a signal that the negotiation is moving from the informal, to the formal realm. In turn company A reacts to this by documenting their own end and behave more defensive. In some extreme cases the negation venue has to be changed to neutral grounds to properly continue the negotiations. Even though it is not used as a deliberate tactic, company A invites the counterparty over to their venue. In the worst of cases the issues are put to court for a definitive ruling.

The interviewee is satisfied with the current negotiation process, but it is also stressed that because of their forced openness in information sharing. Their negotiation position is weakened. Their main goal is to operate on a basis which covers the costs made. Therefore there is little negotiation space in regard to pricing. Which is also a reason for friction during the negation, as price is an issue, yet there is not much room to move in. Because of this forced transparency, this behaviour is also expected from the counterparty.

Final remarks are made by stating that in the end, key aspect of negotiations is to be aware of one's behaviour and a good knowledge of people, knowing your counterparty and what their wishes are.

## **4.2. Analysis of interview with company B**

### *4.2.1. Interview with the staff manager of the marketing and sales department at company B*

The interview at company B was conducted with the staff manager of the marketing and sales department. The marketing department focusses on communication with the external environment and studies general population development. The sales department is occupied with the task of matching the supply and demand within company B. Operating in the healthcare sector this translates to being predominantly occupied with health insurances. Further tasks include the monitoring and projecting of future developments in demand. The interviewee has had an higher education and has substantial experience within the healthcare industry. Also, during his career several specific sales trainings were followed. These were deemed beneficial, mainly to identify certain structures within negotiations. For example when there is a risk, or need, for further escalation. Within this sector it is not common to work with variable pay, therefore the interviewee also has a fixed monetary remuneration.

The negotiation engaged by company B is a continuous, year round process. With the counterparty being predominantly health insurers. Normally these negotiations are prepared by equal teams of 4 to 6 participants. With a reserve board member as an escalation step. The actual negotiations are conducted by compact teams of 2 participants on each side. With a head of purchasing and assistant purchaser as the counterparty.

### *4.2.2. The Initiation and preparation of the negotiation process at company B*

First contact is established from the buying side by making their purchasing policy known for the upcoming year. This is then compared to the data driven trend analysis conducted internally by company B. The data then looks at the net result of company B and from there they try to extrapolate the demand

for the coming year. This marks the beginning of the contact cycle. Because of the cyclical negotiation process, often times the meetings are structural and the process is standardised to an extent where certain topics are discussed at fixed time during the year. Within company B there is a heavy emphasis put on proper preparation for the actual negotiation. Furthermore it is not commonplace for company B to work with alternative offers right from the start.

#### 4.2.3. *The execution of the negotiation at Company B*

During the start of the negotiation cycle company B receives the purchasing policy from the counterparties. This, and their own data provides the basis information for the current negotiation round. This in turn causes for a co-determination of the agenda during the negotiation.

In the second phase of the cycle. The actual preparation takes place. Here all the available data, both externally given and internally gathered are then analysed to come up with an initial standpoint and proposition for the actual negotiations within the third phase of the cycle.

In this phase of the cycle the counterparties meet extensively. Because both parties are bound by a time constraint to reach an agreement. Time is also used as a strategic tool during this phase. Generally speaking at the end of the third phase there is a verbal agreement between two parties.

Then in the fourth and final phase, this agreement is put into official documentation with the use of contracts and is finalised. Thus starting off with the first phase once again and gathering information for the upcoming round.

The interviewee describes this process as rather inefficient as they have to go through this cycle with more than 6 counterparties at a time during the year. As each counterparty has their own wishes and ideas, with their own pricing and volume strategy. Which in its turn makes it difficult to accommodate everyone, and find combined solutions with every counterparty. Further complexity is added by the duration of the contracts, at  $t_0$  The contracts are finalized, the duration of the contract spans throughout  $t_1$  However, if health care is needed at the end of  $t_1$  then the contract can be valid up until halfway  $t_2$ . Being already one and a half negotiation round further before having the definitive data over a certain time period. Most of the time these negotiations take place at the location of company B. The counterparties main tasks are to keep their costs as low as possible and therefore put them on company B. One way they strive to achieve this is by comparing company B to unprofitable competitors. From these competitors the counterparty identifies possibilities for lower pricing. With inappropriate behaviour the interview says:

*"I'm prepared to walk away now and get the board involved in this."*

this is based on the premise that on that day they will not come to a fruitful result. The counterparty did not want negotiate. Instead they demanded that their own position was honoured. Further elaboration is given by stating that it is inevitable to react to and/or mirror to the actions of the counterparty. The interviewee describes a successful negotiation as one where company B has sufficient budget to execute its tasks but still leaves room for company B to critically analyse their own internal processes.

### 4.3. Analysis of interview with company C

#### 4.3.1. *Interview with a director, head of projects and sales at company C*

Company C operates predominantly in the oil and gas sector with a size of 100 FTE. The counterparty consists mostly of other directors and project managers at energy companies and oil refineries. Company C's client portfolio mostly consist of long term recurring clients. The work consist predominantly of providing projected based solutions and commissioning, the latter being the final on-site fine tuning of the project.

The interviewee has started his career 10 years ago at company C as an engineer and has achieved his current position via internal promotions. All the experience with negotiations comes from the years in the field, no formal training has been had. At company C there is variable pay in place which is contingent on the profitability of the company. However, this is throughout all layers of company C. Furthermore it is stated that a base certainty is important and that there simply is work that needs to be done. Depending on how extensive the request of the counterparty is the negotiation can vary in duration between a few week up to several years. This is also contingent on the scope and size of the project. Normally the negotiations consist of one up to three person teams.

#### 4.3.2. *The Initiation and preparation of the negotiation process at company C*

The first contact is established through the buying counterparty. Most of the clientele are recurring, and the majority of new clients come in via word-of-mouth marketing of company C's existing clients. Often the clients come with an issue that needs to be resolved. Company C values a high knowledge level and wants to get into technical details quickly. An example was given where in an initial exchange company C solved a problem which a (potential) client had for over 3 years, within 3 hours. By doing so company C establishes itself as a trustworthy and knowledgeable long term party. This quick problem solving is used a tool to create goodwill to get more information on bigger projects of the client. This further goes to the extent that when a client comes in with a request on a project, company C issues an offer conform the demands of the client. However, a subsequent offer is made to solve the clients problem in a way that company C deems more optimal for the client. This does not necessarily imply optimal profit margins for company C.

During the preparation it is stressed that asking the right questions and proper understanding of the clients problem is fundamental. Otherwise the project might end up not being according to the clients specifications. Due to this client centric approach a lot is tailored to the client and not standardised.

#### 4.3.3. *The execution of the negotiation at Company C*

The negotiations are preferably held in a very informal setting at the location of company C. There is a high preference for an informal setting during meetings with counterparties. An example was giving by the interviewee where the counterparty was invited to cook together and prepare a soup at company C, while cooking they then had the opportunity to get to know each other and discuss the project. Which was received with much enthusiasm and resulted in a good bond with the counterparty. The interviewee also stated that this created a

strategic home field advantage during the negotiations later on. During the negotiations there is attention for the way clients behave and react. The interviewee uses visual cues to probe for information for example when a higher selling price is asked then intended. Furthermore company C is able to give large discounts to preferred clients, based on the relation and the learning opportunity that the projects contains. Going as far as taking the project on at a breakeven level or a small loss. The interviewee stresses the necessity for short communication lines and clear language. Being open and honest with one and other to find a solution together. A successful negotiation is stated to be one where both parties are satisfied with the outcome

#### **4.4. Analysis of interview with company D**

##### *4.4.1. Interview with an international account manager at company D*

Company D is large multinational within the industrial fire protection sector on a global scale. They provide full service solutions from the various security and detection systems, to the installation and maintenance of these products. The team to which the interviewee belongs, consist of 35 employees in the Netherlands. Company D operates via both direct clients and designated whole sellers in certain regions. This is also something that company D has to keep in mind with the acquisition of new clients in certain region. As there is a chance that a certain whole seller has the sole right to put their product out on that market. The interviewee is at company D for eight years now, of which 3 years in his current function. Before that he worked with an employment agency. There he also had several negotiation training and experience prior to the current function. At company D there is a variable pay structure. Which is a capped percentage ( $20\% < X < 30\%$ ) of the annual income. This variable pay is contingent on the employees performance. The negotiations vary from 3 weeks at the shortest to up to 2 years at the longest. Negotiations usually take place with 1 up to 3 people per team. However, the interviewee states a preference for one on one negotiations.

##### *4.4.2. The Initiation and preparation of the negotiation process at company D*

Often times first contact is initiated by the counterparty, who is buying. The counterparty is well informed and already is aware what products company D offers, and which products they need. However, the interviewee has a critical approach to these counterparties and tries to asses why it is exactly that they want the products of company D, what is their expectation? Do they see a potential market to sell the products of company D

In the initial phase open questions are asked to get a proper picture. Another function of these question is to assess what the goal of the counterparty is, whether they just want pricing information or are looking for an extensive cooperation. It is also possible that the counterparty is not aware of the complete product spectrum of company D, therefore with the right information the interviewee can also direct the counterparty to potentially better suited products for their needs. The emphasis during the preparation is to find out what the exact needs of the counterparty are, by doing so they can receive the proper product. Furthermore due to the international scope of the company, cultural background is also taken into consideration by the interviewee.

##### *4.4.3. The execution of the negotiation at Company D*

In general the negotiation takes place at the counterparties location. This is used as a tool to show that their interested in company D is taken seriously. During these visits the interviewee has several bullet points which needs to be discussed, but the flow of the negotiation is organic in nature and does not follow a strict agenda beforehand. The only thing that does have priority, is when something went wrong and needs to be resolved. This way, later on in the negotiation there is sufficient time to end the conversation on a positive note. To create a good feeling with the counterparty when done negotiating. Discounts are possible at company D. The interviewee does strive to provide good pricing for the counterparty. The philosophy behind that being that with a good price the counterparty will be able to more effectively put company D's products into the market and maintain a more sustainable competitive advantage. Which eventually will also benefit company D. There is a preference for a more informal setting during the negotiations as this is considered more beneficial to sustaining a good relationship with the counterparty. This is further achieved by taking into account what kind of person the counterparty is and getting to know them via some small talk. Also mirroring the counterparty is mentioned. As a starting point the interviewee remains on the formal site of behaviour, but once he sees how the counter party behaves, their degree of formality will be mirrored. A successful negotiation is described as one which results in a relationship that spans over multiple years.

#### **4.5. Analysis of interview with company E**

##### *4.5.1. Interview with an account manager at company E*

Company E is a national player in the lighting solutions industry. Their core business surrounds the placements and advice for lighting in infrastructure settings, as well as large scale buildings in both the public and private sector. Company E operates with ninety five full time employees. Of which the sales team consists of thirty four employees. The counterparty consists of municipalities as well as whole- and resellers. With the negotiations varying between a few days up to 4 months. The size of the negation team is also contingent on the size of the counterparty, it is up to four people. Whereas the interviewee is in a team of maximum two people. A preference has been stated for smaller teams.

The interviewee is in his function as account manager at company E for less than a year, and has one year of prior work experience. Aside from training at the beginning of his current position, the interviewee did not have any formal negotiation training. There is variable pay in place which is a capped percentage based on the generated gross profit by the interviewee.

##### *4.5.2. The Initiation and preparation of the negotiation process at company E*

The initial contact is first established by the counterparty. With sales orders for their products. These resellers come to company E because company E strives to create demand for their products at their end users. By listening to needs and wishes of these parties, their issues are defined and the interviewee is then able to provide the matching products. Thus

convincing these parties to use their products. Company E tries to achieve a competitive advantage and maintain recurring sales with their resellers. In the initial exchange of information some basic client details are needed like address and registration number at the chamber of commerce.

Alongside the initial offering some alternatives are provided as well, with several premium replacement products. These alternatives also contain argumentation why they should be considered. This procedure is set in informal protocols.

#### *4.5.3. The execution of the negotiation at Company E*

There is no formal agenda set up with discussion points. The interviewee has a gross price list of the products and from there he is able to give discounts as he sees fit. The rule of thumb that is used is that the more the counter party buys the more discount they can get. However, the relationship with the counterparty and payment period are also factors that influence the given discount. The interviewee does not disclose tipping points as to when more discount can be received.

The negotiations are of informal nature where the counterparty usually adopts a laid back stance. However, with the bigger accounts a more stricter approach is taken, as they also demand more technical information about the products. The negotiations are being held out of office at the location of the counterparty, this can even be as informal as their kitchen table at home.

Furthermore company E strives to work with their counterparties. As they receive feedback over their products and/or other issues that occur in the field. This feedback is then also taken back to the research and development department to properly analyse and solve these issues. Furthermore a significant amount of the counterparties try to bargain about the price. Which provides the challenge to justify the premium mark up for company E's products.

Important aspects for the interviewee is that the counterparty is open and honest with company E and also has the end users best interest in mind. Sometimes counterparties try to strong arm the negotiation by threatening to go and purchase at the competition. This tactic is difficult to counter as company E then has to assess whether this is a real intention or a bluff. In cases of extreme escalation or inappropriate behaviour board members can also be involved, although this is an rare occurrence.

As a final remark the interviewee states that a successful negotiation is one where a long term relationship is established with recurring sales.

### **4.6. Analysis of interview with company F**

#### *4.6.1. Interview with an account manager at company F*

Company F operates within the automotive sector, specifically in the buying/selling and maintaining of trucks. The interviewee is an account manager who is responsible for one of the brands that company F sells.

Previous experience encompasses specific education for the automotive sector and being active for fifteen years at a company which provides internal logistics solutions. During this time a significant amount of sales and negotiations trainings were followed. At this company the interviewee had a variable pay which consisted which initially was an uncapped

percentage of the income, but eventually did get a maximum value. The interviewee said that because of how the variable pay was structured it did incentivise him to go after certain clients. At his current employer the interviewee has a fixed income and says that this now has his preference. As having the variable pay would bring some levels of stress along, which he did not deem beneficial both in a professional en private setting. The fixed salary provides a higher sense of security. This analysis will further deviate in the way that an occasional comparison will be made between his time with the variable pay, and the current company F. Which has a fixed income.

Company F has a diverse client portfolio from individual farmers up to large logistics companies who need up to 50 trucks and maintenance. Contingent on the counterparty these negotiations can vary from one up to fourteen months. These negotiations consist of compact teams up to three participants, A preference has been stated for one on one negotiations.

#### *4.6.2. The Initiation and preparation of the negotiation process at company F*

Normally, initial contact is established from company F. They use a relationship management system. This keeps track of all the history with every client, and provides insight into previous buying behaviour and periodical action that should be undertaken at certain times. For example an annual meeting to just talk to the counterparty, listen carefully and be aware what is going on at their business. Another way is word of mouth and the usage of the interviewee existing network to find new potential clients. The interviewee has a proactive approach. During the conversations it is stressed that listening to the counterparty and getting a clear picture of what they want is crucial to succeed. As it can be quite costly to make adjustments to the order later on in the process. It is in the interest of both parties to do it right the first time. Also the relationship quality is deemed a significant factor in the success of these negotiations. The aforementioned relationship management system is of help to maintain this properly. Most of the administrative work is automated as these are standard legislative documents. The main contrast with the previous employer is the there was a higher focus on cold calling and actively establishing new relationships.

#### *4.6.3. The execution of the negotiation at Company F*

During the meetings there is no formal agenda to adhere to, there are mostly recurring themes that come back in every negotiation. The interviewee says that discounts can be given, however he tends to stay away from the price subject and tries to steer the conversation into another direction initially. Eventually once it comes on the table there is some freedom to give discounts. A remark is made here that clients can be blinded by percentage of discount and disregard the base price of which this applies. Also it is said that on occasion when discounts are given, company F will try to make this up by charging a premium for the financing service of the purchase. There is a stated preference for an informal setting for the negotiation as it is believed that this helps to improve the relationship. Additionally it is stressed that mirroring the counterparty to a certain extend to accommodate them is also beneficial for the relationship. "You have to be like a chameleon" was said. The best outcome for a negotiation is defined as the generation of recurring sales.

#### *4.6.4. The comparison between current fixed income and variable pay in the past*

A main issue given for the variable pay was the added stress that it can provide to keep on scoring. However, if you properly understand the variable pay scheme. Then a good bonus could be achieved. The key performance indicator based system did not have the preference of the interviewee. Even though this did work as good incentive. The relationship with the counterparty was also more strict and formal when compared to the current situation. Furthermore there were basic discount models given to utilise. However, the interviewee never knew the exact profit margin of the sell.

The biggest benefit of company F is the relief of stress provided and certainty of income. Also there is more emphasis on maintaining positive client relationships, which is deemed positive by the interviewee.

### **4.7. Analysis of interview with company G**

#### *4.7.1. Interview with the global automotive business unit manager at company G*

The final company in this analysis is company G. This company operates in the rubber composites industry and is a global player. They operate in 4 main market segments of which the interviewee is responsible for the automotive industry. He has had several formal negotiation trainings. Company G provides variable pay which is based on profitability, acquiring new orders and specific performance indicators. The interviewee does not believe that the variable pay is uncapped, even though official documentation of this is lacking. Due to the complexity of its product it is possible that negotiations can last anywhere from 4 weeks up to 10 years with extensive co-development. The counterparties are often big multibillion companies. The negotiations start of as one on one, then in the middle larger teams can form, and they end with one on two or vice versa. Most of the time the negotiations take place at the location of the counterparty. When visiting the cultural background is also taken into consideration.

#### *4.7.2. The Initiation and preparation of the negotiation process at company G*

First contact is established by company G, they develop products with specific applications, and then find matching buyers for their product. For this they use the AIDA model (Awareness, Interest, Desire, Action). There are no standardised procedures at company G in regard to negotiations. Alternative offers are always considered, by working with theoretical what-if scenarios. Emphasis is put on convincing the counterparty of the expertise that company G has in house.

#### *4.7.3. The execution of the negotiation at Company C*

The flow of the negotiation is determined by the initial offer made by Company G. Several negotiation tactics have been named. The usage of the time as a factor, intentionally postponing meetings and being able to wait longer than the counterparty are named to be efficient tactics. On the other it is also important when to speed up the process in order to maintain control. Furthermore, good and active communication is also important, as was illustrated by an example where company G thought they were the only supplier that the

counterparty was negotiating with. Because of this false assumption they lost the client to a competitor. Therefore emphasis is put on being in control of the negotiation and achieving an intertwined co-dependent relationship with the counterparty.

In regard to pricing company G uses a perceived value pricing model. Meaning they strive to find out what the counterparty is willing to pay. Managing the counterparties expectations is important for this to succeed. Another tactic used during negotiations is making smaller and smaller concessions into the demands of the counterparty. Goodwill can be achieved by being open and honest. Unsubstantiated bluffing will result in the opposite effect. Also contracts are heavily used by company G, because of the large scale orders. Their main function is of a protective nature to prevent company G from being solely liable for any damages that might occur.

Success is defined that both the interviewee's as the counterparty's superiors are satisfied with the outcome.

## **5. DISCUSSION**

### **5.1 Variable pay**

Firstly to reflect back on the work of Kahneman and Tversky (1979) about loss aversion and certain positive outcomes. This study finds that two companies explicitly address the phenomenon. Company C states that they do not have a variable pay in place and that is expected to do the tasks that need to be done as optimally as possible. Further the argument was made that this provides more stability for the individuals. This is confirmed by the statement from the interviewee at company F that the current situation of income certainty is preferred. The reason given for this is because of the ease of mind and clarity it provides. You know exactly what you get at the end of the month and are able to plan accordingly with this. In both good and bad economic times a fixed pay gives more certainty. However, the interviewee did also state that to a certain extent it worked as an incentive to use the variable pay schema as a basis on which to operate. In order to maximise the variable pay as much as possible.

At company D, where also a variable pay is in place, the interviewee states that employees in the Netherlands like to have a high degree of income security. Whereas with the variable pay it is possible to earn a significant amount extra, depending on how well you perform. The interviewee believes that this should incentive employees in a sales representative function to work better. This is in line with the study which found that giving individual monetary incentives can increase an employee's productivity by an average of thirty percent. Locke, Feren, McCaleb, Shaw, and Denny (1980) This is not directly corroborated by the findings at company A where the potentially variable pay is on the low end of the spectrum, or consists of non-monetary items. There it is considered more as an extra instead of a performance measure.

### **5.2 Integrative negotiation behaviour.**

Between the variable pay ( $n = 3$ ) and non-variable pay group ( $n = 4$ ) there are similarities as well as differences in regard to the approach to negotiation. In general the companies, from the sample set, with a higher turnover utilized a higher degree of variable pay. The variable pay group tended to be more satisfied with the current procedures than the non variable pay group, even though both state that there is room for improvement. A difference is that the non variable pay group tended to



negotiate more at their own location, whereas the other more often than not went to the counterparty.

### *5.2.1. Negotiation preparation*

During the preparation of the negotiation the findings of Geiger (2017) that agenda determination is used as a method to acquire tactical advantage is not confirmed. In both the variable- and non-variable pay group the agenda is established in an organic matter dependant on the flow of the conversation. In general the complete sample stated a preference to avoid conflict all together by putting time and effort in the preparation and trying to understand the needs of the counterparty. However, paradoxically it was also stated that information asymmetry during negotiations is a fundamental issue during negotiations. Company G stated that they had a sense of less control over negotiations at times when they did not know what the counterparty was exactly doing. The further issue of information asymmetry is illustrated by company B where they are subject to the purchasing policy of the counterparty, and on the other side have their own data driven value analysis. Which in turn creates room for friction during negotiations.

### *5.2.2. Negotiation execution*

Going by the work of Ghauri (2003), which states that competitive behaviour can have a negative influence on the negotiation atmosphere is collaborated by both groups, company A for example stated that when the counterparty starts to operate more formal, they themselves see obliged to follow suit. The fixed pay company C and the variably pay company E and G both showed forms of self-disclosure. By the means of giving the counterparties pro-active information in regard to current developments at their respective companies in regard to research and development. This is coined as an integrative behaviour (Adler et al., 1992; Graham, 1985; Saorín-Iborra, 2008). Also the tactic of questioning is employed over the complete spectrum of interviewed companies. Company D even went as far as to ask the counterparty for justification of the usage of their products.

A highly integrative tactic is being employed by company G where they try to achieve co-dependency and a mutualistic relationship with the counterparty. According to Ghauri et al. (2001) relationship building and mutual trust are contributors to integrative negotiations. In this regard company C has mentioned a unique trust building tactic where they, on occasion, prepare a meal together with the counterparty.

Furthermore, the interview asked the companies to give their definition of a successful negotiation outcome. The findings here were that the group with variable pay. Also put emphasis on long term relationships and recurring sales. Company G claimed that it is important that the superiors of both parties are satisfied with the outcome. Whereas companies A and B mainly strived to work as efficiently as possible within the parameters that they are given.

Furthermore on multiple accounts (companies B and G) stated that time is used as a tool during the negotiations. This enforces the findings of Saorín-Iborra, (2008) where the usage of this tool is explored.

## **6. CONCLUSION**

Going by the literature review and the qualitative case studies. There is a degree of difference between the groups that did and did not use variable pay in regard to the utilisation of integrative negotiation tactics. Both groups put a high emphasis

on understanding the counterparties position and their needs. This is achieved by extensive preparation and asking the right questions. Also, general consensus was achieved between the companies that being open and honest in general is a beneficial behaviour to have during negotiations. This would create goodwill amongst them and make them more willing full to cooperate to a mutual beneficial outcome with the counterparty.

Furthermore, it was said on multiple occasion that, in the end, negotiating is a people skill, you have to be able to read the counterparty and find out what their motives are. Whether, its looking at their action, or reaction. All information is considered valuable.

Most of the companies also stated the preference for this cooperative approach and the creation of win-win situation for both parties in the negotiations. As both groups showed that this is considered valuable to conducting proper business. It can be concluded that an integrative approach, in general, is preferred over distributive tactics. To achieve, and more importantly to maintain a desired outcome. There was no direct sign of an preference for variable pay, even more so the benefits of a fixed income was discussed. As this would be experienced as less stressful for the subject.

## **7. LIMITATIONS AND IMPLICATIONS**

The sample size of this research is small ( $n = 7$ ) and therefore remarks can be made in regard to the validity of this research. In turn this makes it also more difficult to extract generalised remarks about the data. Further research into the subject of variable pay and negotiation behaviour is required. This research solely looked at the influence of variable pay on integrative behaviour. Further research should look into the other way, namely the distributive negotiation behaviour as well.

Furthermore the dataset is limited to willing full participants that had to be found within a severely restricted timeframe, in a more optimal situation, the vetting of the interviewees could be more extensive, to create a more consistent and strict dataset.

The data is constructed from companies with small geographic differences. This in turn can provide regional biases into the data sample. Also the high discrepancy between company sizes within the data set can have influenced the replies. As a larger company could have a higher degree of formality and has to adhere to more protocols when conducting business with others.

Even though the fact that the interviewees complied with the guidelines set out in this research and fulfilled the requirements to be interviewed. There is a risk for a self-reporting bias to be present within the data set. As opinions on certain issues were asked, the data set also loses some validity to it. Certain events could have been perceived either more positive or negative then they actually were, or in the perception of another participant at said event. Furthermore this research generalises on the premise that one individual is representative for the entire company in their respective situation. To mitigate these effects it is recommended that within one company multiple qualified employees should be interviewed. This way a more representative data set can be constructed.

While this study was of an inductive nature, future research could utilise a more deductive approach to this topic, which can provide new insight into the subject. Also, as was mentioned that being dependant on variable pay can be experienced as

stress increasing, a follow-up study could look at non-monetary remuneration, alongside a fixed income. In the field of human results further research can be done into this observed phenomenon. To see whether this aligns with theories from that field. Furthermore this research adds to the body of knowledge by reaffirming that an integrative approach is preferred by companies for a long term relationship. In practice this research can be used as an additional source to see whether the usage of variable pay at a company is a match with the company objectives. As increased stress might be experienced.

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## Appendix A. Interview guide

- General and organizational points:
  - Interview will be audio taped if you agree
  - Your name and your company's name will only be used anonymously
  - If you agree, we would like to use quotes from the interview
  - You will receive an aggregated executive summary of the findings from this research project
- Procedure and type of questions:
  - We will ask you very open questions with the goal of creating a maximum of latitude in your answers. This is to avoid any influence on our part in formulating your answers. We are conducting an exploratory study and want to learn more about your experience and expertise in your negotiations.
  - Explanation of what we mean by “negotiation issue” as the object of the present study:
    - Negotiation issues = all items, topics, aspects, or conditions where parties may have conflicting interests and that need to be solved to come to an agreement
    - Example: Price of an offering or a product (but also different, potentially less obvious items or topics)

**Introduction** (Information on your company and your own professional experience).

To better understand the background of the negotiations you conduct,

please briefly describe your department and your function in the company, as well as the customers (suppliers) of your company.

- Offerings/products
- Size, FTE, etc.
- Number of customers, turnover, number of salespeople/size of purchasing department)
- Type of customers/suppliers in terms of size, industry, etc.
- Is there Variable compensation in place?  
If yes, in what form? ( % bonus?)

Please briefly describe your educational and professional background and your experience.

- Years in the industry, in the current position, What is your negotiation experience?
- Number of negotiations conducted (all in all, per month)
- Trainings?

*When answering the following questions, please think about a typical negotiation situation with a customer (supplier) on a new project, which you remember well. Please also add experiences from other negotiations, which deviate from the typical example (no re-negotiation!).*

### Part 1: Initiation of the negotiation/the transaction

1. How is the first contact between you and your counterpart established?

- Who is the first contact person?
- Who initiates the first contact: selling or buying side?
- Which content does the first information exchange have?

2. After making first contact, how does the first offer come about, and what issues are contained in such a first offer?

- Process over time: information exchange, conversations, emails, etc.?

- How long does the negotiation process last?

- Was this time scale long enough to negotiate?

- How was the time available managed?

- Are there formal guidelines/documents to be followed?

### Part 2: Negotiation preparation

3. How do you prepare for a negotiation?

- Standardized vs. Customer (supplier)/industry-specific preparation
- Are very important issues/aspects explicitly identified?
- Are preferences and priorities compared and scored?

- Are alternative offers or proposals prepared (e.g., stripped down offering) in case the preferred bundle does not lead to agreement?
  - Do you feel satisfied with the process and / or agreement?
  - The importance of the attitude or behaviour adopted by negotiators in order to achieve a desired outcome in these negotiations?

### Part 3: Negotiation

IMPORTANT: After each answer in this section, ask for effect on negotiation outcomes (e.g., pie enlargement/agreement/negotiation profit/business relationship/personal relationship/saving face/emotions/idea generation).

Ex: “Why do you conduct a formal negotiation?”

4. Do you conduct formal negotiations? If so, how does it unfold?

- In person, pre-planned meeting (not via telephone or email)

5. Which people take part in the negotiations (both sides)?

- Did these people actively participate in developing them?
- With regard to that question, would you prefer more or less people
  - How would you describe communication between the negotiating parties?

6. Which issues are negotiated?

- Pre-determined issues (agenda)? How determined? By whom?
- Pre-determined order?
- Number of issues?

7. How do you conduct a negotiation with regard to the negotiation issues?

- Integrate your ideas with those of your opponents to come up with a decision jointly
- Ask which issues are more or less important to other party
- Try to work with the opponent for a proper understanding of a problem
- Give some to get some

- Exchange information
- Guideline by company?
- Influence through bargaining power?
- Is the importance of some issues exaggerated? Why?

8. Does it happen that new issues pop up though the negotiation seemed to be finalized? How do you handle such a situation?

- E.g., last minute throw ins (consciously/unconsciously forgotten)?
- Were there any conflictive issues? Any unexpected and / or inappropriate reactions or actions? How were they resolved?

9. Are new issues included through (formal) contracts?

- Terms and conditions
- Contingency clauses?
- In case of unexpected events: Safeguards? Why?

- What can be considered as a successful outcome in business negotiations?

- Does your negotiation behaviour evolve along the process? Why? Did the supplier's behaviour influence yours?

### Conclusion (Miscellaneous remarks and conclusion)

- Would you like to add something important? Do you have more remarks