

## SELECTED THEORIES OF THE FIRM AS A BASE FOR NEGOTIATION DESCRIPTION

### INTRODUCTION

The aim of the article is to present the synthetic characteristics of those of firm theories (economic ones and management concepts related to them) which are most important for the description of negotiation processes in a company, as well as to show for what purposes these theories can be used in the area under consideration. Undertaking the above-mentioned objectives is justified by the need, on the one hand, to create theoretical foundations of the precise and comprehensive identification and analysis of negotiation processes in the enterprise and, on the other hand, to provide the necessary conditions for the efficient execution of these processes, i.e. their planning, conducting and summing up. The article is of a theoretical nature and is based on a comparative analysis of the literature on the subject.

First, the concept of negotiation in general and in relation to the enterprise should be presented. It is most frequently interpreted as: a decision-making process, methods of conflict management and achieving agreement, partners' interdependence, and processes of communication, exchange, and value creation<sup>1</sup>. From a managerial point of view, the first of these interpreta-

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<sup>1</sup> Lewicki, R.J., Saunders, D.M., Barry, B., Minton, J.W. 2005. *Zasady negocjacji. Kompendium wiedzy dla trenerów i menedżerów.* [Negotiation principles. A compendium of knowledge for trainers and managers.] Poznań: Dom Wydawniczy Rebis, pp. 17–33; Rządca, R. 2003. *Negocjacje w interesach.* [Negotiations in business.] Warszawa: Państwowe Wydawnictwo Ekonomiczne, pp. 23–47; Kozina, A. 2012. *Planowanie negocjacji w przedsiębiorstwie.* [Negotiation planning in an enterprise.] Kraków: Wydawnictwo Uniwersytetu Ekonomicznego w Krakowie, pp. 21–24.

tions is the most important. In the problem analysis phase the parties implement this process independently of each other, from the point of view of their goals. Then they mutually agree on two pairs of sets: alternative solutions and evaluation criteria, predetermined for each of the parties individually. The negotiation process in general and broad terms consists of the following three sub-processes (phases), together with their objectives, and relevant stages within them<sup>2</sup>.

1. Planning the negotiations – the goal is to ensure the necessary conditions for conducting them, which in turn makes it possible to develop their operational plan:
  - pre-negotiation identification and analysis,
  - determination of the negotiation scope and strategies,
  - operational planning of negotiations.
2. Conducting negotiations – the aim is to lead to the settlement of negotiations according to the adopted plan:
  - start of negotiations (the preliminary stage),
  - proper negotiations (the middle stage),
  - closing negotiations (the final stage).
3. Summary of negotiations – aims at the formal confirmation of their arrangements in the form of an agreement and at the evaluation of the course of the negotiation:
  - substantive activities related to the conclusion of the agreement,
  - analytical and evaluation activities related to the negotiation process.

Each of these stages encompasses a number of constituent activities, for example, the determination of the negotiation scope and strategies consists of the following actions:

- 1) estimation of the bargaining power of negotiating parties,
- 2) definition of the problems and objectives of the negotiations,
- 3) formulation of various solutions to the problems,
- 4) choice of a negotiation strategy,
- 5) specification of the strategy – selection of auxiliary negotiation tools.

In turn, the identification of the relationships between negotiations includes the following activities:

- 1) initial identification of the relationship of a given negotiated situation with others,
- 2) determination of the type of these relationships,
- 3) their detailed characterisation,

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<sup>2</sup> Kozina, A., *op. cit.*, pp. 70–71.

- 4) assessment of the relevance (significance) of the occurring relationships,
- 5) establishment and implementation of appropriate changes in the description of the negotiated situation.

Negotiations in the enterprise stem from its essence as a special kind of organisation. They cover both those in which the company is the environment of negotiations and the ones in which it is a party. Negotiations can be conducted between internal stakeholders, e.g. employers and employees, owners and managers, etc., and by company representatives with external entities such as suppliers, buyers, contractors. They are one of the instruments used in the management process to achieve company goals to which they are strictly subordinated serving the realisation of all kinds of undertakings, processes and tasks. The principal of every negotiation in the company is the manager at the appropriate level or an employee delegated by him/her (responsible also for carrying them out), both from a given functional, process or project team (in intra-organisational negotiations), and from a negotiating team (a task force, virtual one) representing the company (in inter-organisational negotiations).

Due to the evolutionary character and mutual penetration of the theories of the firm, in further considerations, looking for an answer to the question 'what is an enterprise', I will take into account the newest and comprehensive approaches, so-called mature alternative theories integrating earlier (basic) theories as a kind of 'Lego bricks'<sup>3</sup> and reflecting the complexity of modern enterprises and the conditions in which they operate.

Among the mature alternative theories from the point of view of negotiations in the company as their reference, the most important are those that have been integrated within new institutional economics, especially theories of transaction costs, contracts and agencies. In addition, in order to fulfil the objectives of the article I will also take into account the stakeholder theory, created on the basis of strategic management and providing a convenient platform for the integration of company theories<sup>4</sup>, as well as the theory of inter-organisational relationships, essential for the analysis of negotiations of company representatives with entities in its environment. These theories will be discussed in the next sections of the article, and the presentation of each of them will include, firstly, its synthetic characteristics, and secondly, its place

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<sup>3</sup> Gruszecki, T. 2002. *Współczesne teorie przedsiębiorstwa*. [Modern theories of the enterprise.] Warszawa: Wydawnictwo Naukowe PWN, p. 192.

<sup>4</sup> Gorynia, M., Jankowska, B., Owczarzak, R. 2005. Zarządzanie strategiczne jako próba syntezy teorii przedsiębiorstwa. [Strategic management as an attempt to synthesise the firm theory.] *Ekonomista*, no. 5.

and role in the implementation of negotiation processes in the company. In order to determine the order of presentation of the theories under consideration, the criterion of 'proximity of the relationship' with the area of their application was applied, i.e., the theory of interorganisational relations will be discussed first as a general basis for the identification of external negotiating partners, while the theory of the agency, allowing identification of the main participants and relations between them, will be discussed as the last one.

## 1. THEORY OF INTER-ORGANISATIONAL RELATIONS

This theory deals with problems of interaction between the company and entities in its surroundings from a wider perspective than in the traditional analysis of the organization's relations with its surroundings. Inter-organisational relationships include relatively durable transactions, flows of resources and information and other contacts that arise between organisations and between the enterprise and its environment<sup>5</sup>. The relationships under consideration have a more structured and durable form than those based solely on market relationships, as a result of which apart from competing companies do not engage in any other interactions. Interorganisational relationships can be described using such characteristics as: frequency of contacts, benefits from cooperation, degree of formalisation of relationships, indirect and direct influence of other organisations and convergence of goals<sup>6</sup>. In order to identify possible forms of the relationship under consideration, first their determinants, for example, legal regulations, formal contracts and voluntary activities are determined<sup>7</sup>. Two approaches with different perspectives provide a theoretical basis for these relationships<sup>8</sup>.

1. *Exchange* – relationships arise when companies see mutual benefits in it, allowing them to achieve their goals to a greater extent than when acting more autonomously. There is a high degree of cooperation and a focus on problem solving.

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<sup>5</sup> Oliver, C. 1990. Determinants of Interorganizational Relationships: Integration and Future Directions. *Academy of Management Review*, vol. 15, no. 2.

<sup>6</sup> Schmidt, S.M., Kochan, T.A. 1977. Interorganizational Relationships: Patterns and Motivations. *Administrative Science Quarterly*, vol. 22.

<sup>7</sup> Hall, R.H., Clark, J.P., Giordano, P.C., Johnson, P.V., van Roekel, M. 1977. Patterns of Interorganizational Relationships. *Administrative Science Quarterly*, vol. 22.

<sup>8</sup> Schmidt, S.M., Kochan, T.A., *op. cit.*

2. *Dominance* – motivation for interaction is asymmetrical, i.e. one company strives for it and the other does not. The relationship arises only when the first firm is strong enough to force the other to start the interaction. There is a high level of conflict and an attitude of mutual bargaining to achieve only one's own benefits.

There are many types (forms) of the discussed relationships, e.g. B.R. Barringer and J.S. Harrison conducted their comparative analysis on the basis of theoretical paradigms arising from the following concepts (placed on the 'economic-behavioural' continuum): transaction costs, dependency on resources, strategic choices, stakeholders, learning and the institutional ones. As a result, such forms of relationships as joint ventures, networks and consortia (close ties) and alliances, trade agreements and joint management (looser links) were defined<sup>9</sup>. In another approach, the following forms of cooperation and concentration of the company with entities in the environment were distinguished<sup>10</sup>:

- 1) contract-free – exchanges of mutually-adjusted benefits according to commercial rules, mutually agreeable market behaviour (in competitive situations),
- 2) contract – buy-sell, co-operation (production cooperation), others (e.g. a cartel), a consortium, lease, leasing and joint ventures (including companies),
- 3) coordination – a voluntary association, a chamber of commerce, a syndicate, a guild,
- 4) loose concentration – a concern, a holding,
- 5) tight concentration – a multi-plant enterprise,

A variety of contemporary forms of business cooperation and integration, such as mergers and acquisitions, strategic alliances, corporations and holdings, networks and clusters, and their dynamics and interpenetration greatly hampers their typology.

The theory under consideration is thus a more convenient platform for analysing the external conditions of a company's negotiations with its surroundings than the traditional approach in the field of strategic analysis. These forms of cooperation and integration are the basis for distinguishing various types of external negotiations and, consequently, for determining their

<sup>9</sup> Barringer, B.R., Harrison, J.S., 2000. Walking a Tightrope: Creating Value through Interorganizational Relationships. *Journal of Management*, vol. 26, no. 3.

<sup>10</sup> Lichtarski, J. ed. 2001. *Podstawy nauki o przedsiębiorstwie*. [Fundamentals of science about the company.] Wrocław: Wydawnictwo Akademii Ekonomicznej we Wrocławiu, p. 347.

objectives and scope. Considering negotiations as one of three stages in the process of shaping cooperative relations, P.S. Ring and A.H. Van de Ven aptly grasped the role of negotiations from the point of view of inter-organisational relations. The other stages are taking on mutual commitments and their fulfilment. All three stages are repeated cyclically, and they are bound by the fourth stage: the assessment of the effectiveness of the cooperation. As part of this process, the parties formulate common expectations about their motives for cooperation, the scope of possible investment in cooperation, and the perceived factors of uncertainty in the implementation of the joint undertaking. Emphasis is placed on formal bargaining processes and the identification of appropriate behaviour when choosing and approaching a potential partner. The importance of mutual persuasion and arguing about the possible conditions and procedures of potential cooperation is also underlined. Formal negotiations are assisted through socio-psychological processes of explanations and decisions (informal contacts), which prompt independent partners to negotiate with each other. Repeated activities of both types are often necessary to provide partners with the possibility to estimate uncertainty related to the project being undertaken, to determine the nature of their roles (functions), to assess the degree of trust in the other party, to establish their rights and obligations in the transaction under consideration and to evaluate its effectiveness from the point of view of the interests of all its partners<sup>11</sup>.

## 2. THEORY OF TRANSACTION COSTS

Another of the theories under consideration, created by R.H. Coase<sup>12</sup>, challenges the assumption of neoclassical economics that only market exchange (through prices) ensures optimum resource allocation<sup>13</sup>. In response to the question 'why do companies exist at all, since the market-based allocation mechanism through prices is so great (why are market transactions replaced by decisions made under a centralised coordination mechanism)?' R.H. Coase stated that the sense of existence of a company, separated from the market, takes place where transaction costs in the company are lower than the cost of coordination by market exchange<sup>14</sup>. So coordination in the company is

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<sup>11</sup> Ring, P.S., Van de Ven, A.H. 1994. Developmental Processes of Cooperative Interorganizational Relationships. *Academy of Management Review*, vol. 19, no. 1.

<sup>12</sup> Coase, R.H. 1937. The Nature of the Firm. *Economica*, vol. 4.

<sup>13</sup> *Leksykon zarządzania. [Management lexicon.]* 2004. Warszawa: Difin, p. 234.

<sup>14</sup> Coase, R.H., *op. cit.*

cheaper and more effective. The category of transaction costs (difficult to isolate and estimate) can be broadly defined as ‘the costs of coordination of the activities of the enterprise in the market environment resulting from the need to negotiate with suppliers and buyers, to monitor and execute contracts and to collect market information, the costs of reserve creation, of losses resulting from failed transactions and wasted opportunities<sup>15</sup>. The contract approach (discussed below) introduces a new element to R.H. Coase’s theory: a hypothesis that the dominant tendency in behaviour of contract partners is opportunistic behaviour, inducing participants to minimise their contribution, which leads to uncertainty in the execution of contracts. Reduction of this uncertainty requires monitoring and entails costs (a conflict of interest).

As for the significance of the theory of transaction costs in the area under consideration, it should be noted that expenditures related to the conduct of negotiations by the company and concluding contracts with its customers, co-operators, suppliers, etc. are one of the components of transaction costs. They are high especially in the case of strategic negotiations such as mergers, taking over or restructuring. In turn, the implementation of negotiation processes itself can be treated as one of the sources of transaction costs. In addition, these costs are an important premise for the company in making a make-or-buy decisions, and consequently in conducting negotiations in cooperation and integration projects and restructuring programmes, such as mergers, strategic alliances, outsourcing, etc.<sup>16</sup>. Transaction costs are also an important premise of the identification and analysis of the positions of external negotiating partners in the framework of the stakeholder analysis, determining the bargaining power of parties and initial assessment of the effectiveness of negotiations<sup>17</sup>.

### 3. THEORY OF STAKEHOLDERS

The theory under discussion is based on the assumption that values are a necessary and immanent element of economic activity<sup>18</sup>. The company has relationships with many stakeholders who influence its decisions and are at

<sup>15</sup> *Leksykon zarządzania. [Management lexicon.] op. cit., p. 234.*

<sup>16</sup> *Leksykon zarządzania. [Management lexicon.] op. cit., p. 234.*

<sup>17</sup> Cramton, P.C. 1991. Dynamic Bargaining with Transaction Costs. *Management Science*, vol. 37, no. 10.

<sup>18</sup> Freeman, R.E., Wicks A.C., Parmar, B. 2004. Stakeholder Theory and the Corporate Objective Revisited. *Organization Science*, vol. 15, no. 3.

the same time influenced by these decisions<sup>19</sup>. The interests of all groups having authority have a significant value – none of them can dominate the others<sup>20</sup>. This theory focuses on making managerial decisions, explains the nature of the company's relations with stakeholders, both in terms of processes and effects of the activities for the parties of this relationship<sup>21</sup>. Stakeholder theory includes three trends<sup>22</sup>:

- 1) a descriptive one – characterising and explaining the characteristics and behaviour of the company and its stakeholders,
- 2) an instrumental one – identifying the relationships between stakeholder management and the achievement of the company's economic goals, and
- 3) a normative one – used to interpret the firm's goals and functions taking into consideration their moral and philosophical implications for management (the issue of corporate social responsibility).

As far as the very concept of company stakeholders is concerned, the following interpretation can be considered the most appropriate: 'groups or persons putting forward demands addressed to it, ... both those who provide the company with resources and those that depend on its resources, running the risk and affecting the level of this risk, being in forced or voluntary relationship with the company, etc. ... The different interest groups have different ability to influence the company, hence they can pose a serious threat for it or be of no significance. Therefore, in newer definitions of interest groups, not only lodging of claims to the company, but also the possibility of their execution is stressed<sup>23</sup>.

Stakeholders are usually divided into two groups:

- 1) internal ones (in the company), which include: owners (dominant shareholders or stockholders), supervisory board, managers and employees;
- 2) external ones (in the environment), including: suppliers and subcontractors, investors and partners in other forms of cooperation, customers, competitors, financial institutions (banks, insurance companies, creditors), trade unions, state and local government authorities, educational institutions, social groups and pressure groups, etc.

<sup>19</sup> Freeman, R.E. 1984. *Strategic Management: A Stakeholder Approach*. Boston: Pitman.

<sup>20</sup> Donaldson, T., Preston, L.E. 1995. The Stakeholder Theory of the Corporation: Concepts, Evidence, and Implications. *Academy of Management Review*, vol. 20, no. 1.

<sup>21</sup> Jones, T.M., Wicks, A.C. 1999. Convergent Stakeholder Theory. *Academy of Management Review*, vol. 24, no. 2.

<sup>22</sup> Donaldson, T., Preston L. E., *op. cit.*

<sup>23</sup> *Leksykon zarządzania. [Management lexicon.], op. cit., pp. 151–152.*

The analysis of stakeholders (partners, shareholders, supporters) based on the theory under consideration is one of the methods of study of the general environment in strategic analysis seeking to identify and assess key partners of the firm. Its purpose is to identify and analyse (evaluate) the type and scope (forces) of influence of various types of interest groups on the development of the company's strategy of operations and, more broadly, its organisation and operation. It aims to get to know these groups and to define the character of relations existing between them and the firm and to identify instruments or decisions by means of which they affect and intend to affect the organisation. It can be useful in defining the goals of the organisation with respect to itself and its individual partners, and in generating and evaluating its strategic options<sup>24</sup>.

The discussed concept and the contract theory provide a useful methodical tool for the description and analysis of negotiations in the company. It allows you to create detailed characteristics of interest groups as parties of negotiations and contracts. On the other hand, the stakeholder analysis enables deeper identification and evaluation of potential negotiating parties in the company, as it facilitates the identification of their interests, objectives and their bargaining position in relation to the company. This is of particular importance in multilateral negotiations for the description of their complexity and for choosing strategies for conducting them, especially when formulating coalitions. 'The negotiating parties may seem obvious and sometimes this is the case. Nevertheless, it is often the case, especially in the case of nominally bilateral negotiations, that other inconspicuous players are already involved. Sometimes other parties join the negotiation unexpectedly and make its course unpredictable. Sometimes engaging other parties in our negotiations can bring us benefits. It is important to calmly identify the active and potential parties to the negotiations and then to consider whether the involvement of other parties would bring us any benefits'<sup>25</sup>. The identification of stakeholders is also essential from the point of view of the effectiveness of the implementation of the agreement. If they are not taken into account to

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<sup>24</sup> Lisiński, M. 2004. *Metody planowania strategicznego*. [Strategic planning methods.] Warszawa: Państwowe Wydawnictwo Ekonomiczne, p. 80–88; Obłój, K. 2007. *Strategia organizacji. W poszukiwaniu trwałej przewagi konkurencyjnej*. [Organization strategy. Looking for a lasting competitive advantage.] Warszawa: Państwowe Wydawnictwo Ekonomiczne, p. 217, ff.

<sup>25</sup> Watkins, M. 2005. *Sztuka negocjacji w biznesie. Innowacyjne podejście prowadzące do przełomu*. [Breakthrough Business Negotiation: A Toolbox for Managers.] Gliwice: Wydawnictwo Helion, p. 24.

a sufficient extent and adequately early, this will lead to a waste of time in the implementation process. It is a serious mistake to omit apparently irrelevant and indeed significant interest groups, for instance, not to take into account a trade union with few members in the wage bargaining. Such a union can then effectively impede the implementation of the agreement entered into by the management of the company as an employer with representatives of another trade union associating the majority of employees, of seemingly decisive importance for representing the interests of employees. Another example might be the exclusion of a supplier of components that offers higher prices than other contractors but for better quality parts from the group of potential negotiating partners. After some time, the resulting savings can be illusory as there will be losses due to increased repair costs following complaints about defective products. On the other hand, it is also inappropriate to treat as negotiating partners those interest groups that should not be taken into account. It causes a significant waste of time and other means as well as the loss of better opportunities (potential benefits). It should be emphasised that when applying the stakeholder analysis, not only with regard to the negotiation processes, and especially their planning, but also with respect to its original purpose, it is necessary to take into account the following indications stemming from the current conditions of the firm operation:

- the characteristics of stakeholders, especially as potential negotiating partners, should be very precise, taking into account all their features, even seemingly less useful or relevant;
- both current stakeholders as well as potential and even hypothetical or desirable ones should be considered and their behaviour predicted;
- the analysis should cover all current and potential links between them, in particular for the purposes of multilateral negotiations and formation of coalitions;
- the analysis should be dynamic – information about stakeholders (their characteristics, preferences, groups, etc.) should be reviewed and updated on an ongoing basis;
- the analysis should take into account (in a similar way) also the given company as a current or potential stakeholder of other entities, in particular in terms of achieving its own objectives and the way it is perceived by partners – this is the so-called ‘dual’ analysis problem;
- all information on stakeholders and the results of their analyses should be collected, processed and disseminated in co-operation of all units of the company, in the form of a specific database of its partners.

#### 4. CONTRACT THEORY

Creating this theory, A.A. Alchian and H. Demsetz responded negatively to the question of the sense of the existence of the company in the following form: can the market not replace it in the organisation of teamwork?<sup>26</sup> This is possible only in it, as a special 'economic device', i.e. a 'bundle of contracts which the organiser concludes to gain control over various resources the firm is composed of<sup>27</sup>. The company is treated as a set (network) of contracts, not only between entities laying claims to its resources but also all stakeholders entering into relationships with it. As a result, the company's goal is the result of various, often mutually conflicting objectives of stakeholders. It is only a legal entity within which the balance between the conflicting interests of individuals is achieved through appropriate contractual relationships. An explicit (formal, written) contract or an implicit (default, unwritten) one is a mutual commitment<sup>28</sup>. According to H.A. Simon's principle of limited rationality and/or the need to minimise costs, there are so-called incomplete contracts<sup>29</sup> and the problem of 'trapping' by an unfavourable contract, the terms of which cannot be changed<sup>30</sup>. The contract approach is a development of the transaction cost theory but focuses on the particular type of relationship between contract parties in an enterprise.

The discussed theory is (along with the theory of stakeholders) a universal platform for analysing the context of negotiations in the company. It allows you to consider the financial conditions and factors affecting the behaviour of all entities related to the company – owners, executives, employees and entities from the environment<sup>31</sup>. It provides a convenient methodological framework for analysing negotiations within the company as it shows their vital role as a means of entering into potential contracts between its stakeholders, in various possible bilateral or multilateral agreements, in

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<sup>26</sup> Alchian, A.A., Demsetz, H. 1986. Production, Information Costs, and Economic Organization. In: Putterman, L. ed. *The Economic Nature of the Firm. A Reader*. Cambridge: Cambridge University Press.

<sup>27</sup> Gruszecki, T., *op. cit.*, pp. 216–217.

<sup>28</sup> Mesjasz, C. 1999. Mechanizmy nadzoru nad przedsiębiorstwem. [Mechanisms of company supervision.] *Przegląd Organizacji*, no. 7–8.

<sup>29</sup> Hart, O., Moore, J. 1999. Foundations of Incomplete Contracts. *Review of Economic Studies*, vol. 66.

<sup>30</sup> Schmitz, P.W. 2001. The Hold-up Problem and Incomplete Contracts: A Survey of Recent Topics in Contract Theory. *Bulletin of Economic Research*, vol. 53, no. 1.

<sup>31</sup> Mesjasz, C., *op. cit.*

the context of conflicts of their interests<sup>32</sup>. These interests and relations between the parties determine the aims and scope of the negotiations under consideration. There is thus a 'map' of these negotiations, both within the company and in its relations with the surrounding. In addition, the contract theory offers a different from traditional and more useful approach to the negotiation environment, i.e. the distinction between two types:

- 1) contractual – covering all entities that may have direct contractual (explicit or implicit) relations with the company,
- 2) contextual – bringing together all conditions that determine the behaviour of the enterprise without entering into contractual relationships with it.

Furthermore, the discussed theory is important in the phase of concluding the contract between the negotiating parties, constituting a reference point in defining formal arrangements, in particular to limit the potential incompleteness of the contract. To understand the essence of specific relationships between stakeholders as contract parties it is necessary to consider them on the ground of another theory.

## 5. AGENCY THEORY

This theory, as a development of the transaction cost theory and the contract approach, focuses on a particular type of interaction between contract parties that occurs within the company<sup>33</sup>. This is the agency (representation) relationship that arises when one entity – the agent – receives a commission from another agent – the principal. He/she is also given decision-making powers necessary to carry out this action. Thus, decision making and its control are separated. The parties are guided by their own interests, so that their goals are not fully convergent<sup>34</sup>. The purpose of the discussed theory is to create the characteristics of both actors and their behaviour, taking into account such categories as the agency relationship itself, as well as conflicts of interest and information asymmetry between them, their attitudes to risk,

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<sup>32</sup> Cross, J.G. 2002. Economic Perspective. In: Kremenjuk V.A. (ed.), *International Negotiation. Analysis, Approaches, Issues. A Publication of the Process of International Negotiations (PIN) Project*. San Francisco-Oxford: Jossey-Bass Publishers.

<sup>33</sup> Ross, S.A. 1973. The Economic Theory of Agency. The Principals Problem. *American Economic Review*, vol. 63, no. 2; Jensen, M.C., Meckling, W.H. 1976. Theory of the Firm: Managerial Behavior, Agency Costs, and Capital Structure. *Journal of Financial Economics*, vol. 3.

<sup>34</sup> Mesjasz, C., *op. cit.*

agency costs (monitoring, responsibility and residual loss), and the form of contract concluded between them – based on the result or the behaviour<sup>35</sup>. Most frequently two most important arrangements of relations of this type are distinguished in the company: the owner – the manager (the essence of corporate supervision), because it is ‘a theory dealing with the problem of balance between the interests of capital donors and the interests of capital managers’<sup>36</sup> and the manager – employees (the sense of labour relations). Asymmetric relationships: principal-agent exist also in the market in the form of forced cooperation<sup>37</sup>. The application of this theory is very broad: it can cover relationships between such different partners as creditors and debtors, the insurer and the insured, the tenant and the lessee, the manager and employees, etc.<sup>38</sup>.

Indicating the place and role of the agency theory in the analysis of negotiations in the company, it should be noted, first, that out of numerous models and theories of the firm this one is most commonly used in the area under consideration<sup>39</sup>. Negotiations can of course occur in any kind of relationship between the company’s stakeholders. Due to the fact that the agency theory is the most important among the considered theories of the firm in terms of its usefulness for the purpose of describing negotiations in the enterprise, more space should be devoted to it. Below I present a proposal of the identification of the negotiations in question with the use of the basic categories of the agency theory that are listed above<sup>40</sup>.

1. The principal – a person or a group entrusting the representation of their interests in negotiations to another person or group. Generally speaking, the principal is the company, acting through its employees as agents who become principals. Thus, in the given negotiations the principal is an agent in the environment of the company as a whole. In practice, it is a manager of the appropriate level of the command hierarchy (supervisor) responsible for overseeing the negotiation of a given type, for specific

<sup>35</sup> Eisenhardt, K.M. 1989. Agency Theory: An Assessment and Review. *Academy of Management Review*, vol. 14, no. 1.

<sup>36</sup> *Leksykon zarządzania. [Management lexicon.] op. cit.*, p. 586.

<sup>37</sup> Gruszecki, T., *op. cit.*, pp. 219–220.

<sup>38</sup> Lichtarski, J. ed., *op. cit.*, pp. 32–33.

<sup>39</sup> Watkins, M., *op. cit.*, pp. 173–177; Bazerman, M.H., Neale, M.A. 1997. *Negocjując racjonalnie. [Negotiating Rationally.]* Olsztyn: Libra, pp. 142–148; Lax, D.A., Sebenius, J.K. 1991. Negotiating through an Agent. *The Journal of Conflict Resolution*, vol. 35, no. 3; Rubin, J., Sander, F. 1988. When Should We Use Agents? Direct Versus Representative Negotiations. *Negotiation Journal*, no. 7.

<sup>40</sup> Kozina, A., *op. cit.*, pp. 83–85.

tasks, in a specific field, in the implementation of a specific process or project, etc. The principal is also the head of the negotiating team in relation to its members, the company's representatives in negotiations.

2. The agent (the representative) – a person or a group whose duty is to represent the interests of the principal in relation to the external negotiator in order to pursue the interests of the company. As a rule, no one is able to act as a perfect representative of another person or organisation. In general, all the employees of the company involved in the negotiations are agents. The agent in a given negotiating situation may be the principal in another. Principal-agent relationships are commonplace in the company, due to the multitude of negotiation cases. In practice, the agent is an employee (subordinate) in the executive position, or a group or team of employees (virtual, responsible for a task, a process, etc.) responsible for carrying out negotiations of a given type, in a specific field, project, etc. Several types of agents can be differentiated:

- an internal, formal one – the employee of the company for whom conducting negotiations is either part of the scope of tasks, responsibilities and powers, or takes place under the authority granted to him for the current task (project, process, etc.), he/she may also be the head of the negotiating team;
- an internal, informal one – a leader of a group of interests, chosen to perform this role by members of the group and endowed with their trust (or a self-appointed one);
- an external (formal) one, i.e. an independent expert, adviser, agent, intermediary, etc., hired to represent the interests of the company.

In addition, he/she may be a member of the negotiating team in relation to the head of the team.

3. Agency (representation) relationship. Forms of this relationship – depending on the type of the agent – are as follows:
  - transfer (delegation) and realisation of entitlements (permanent or temporary);
  - obtaining the 'electoral mandate' of an interest group;
  - engaging and granting a power of attorney.

The essence of the considered relationship (for all the above mentioned cases and both functions) is to define and assign tasks, plan, supervise, coordinate, assist, monitor the agent's actions by the principal. In return, the commissioned tasks are performed and reports are delivered according to instructions and throughout the process. The reasons for the formation of this relationship, i.e. the reasons for engaging the company's

representatives in the implementation of negotiation processes, are mainly the division of work and authority in the company. This is the primary reason, especially in the case of the involvement of internal agents, because it is difficult for a large group to represent different interests. In addition, the substantive competence of the company's representatives, i.e. their knowledge potential, abilities, skills, personal qualities and experience, is essential for negotiation of a given type. What is also important is the expectation of better effects, or at least lower transaction costs, than if the negotiations were conducted by the principal himself, despite a noticeable level of risk. In some negotiating cases the willingness to distance oneself, reduce the risk or not destroy the relationship with the other party may be also important. This is especially the case when external agents are engaged.

4. Conflict of interest – divergent interests in the company result from the fact that in practice it is not a monolith, i.e. it is not unanimous in its key interests and decisions. In each organisation apart from common goals integrating workers, specific aims of both individual workers and their diverse groups are often revealed. In such a situation it can be extremely difficult to arrive at a consensus or even a compromise acceptable to all. This puts agents in a difficult situation, because they may not be sure which objectives to pursue. What is expected from them can be unclear, ambiguous, or even inconsistent or contradictory. In turn, the conflict of interests within the agency relationship as such, i.e. between the principal and the representative, results simply from the fact that both of these entities may also pursue their own interests, not just the specific objectives of the negotiation or task, project, etc. for the realisation of which they are responsible, and even more so – the general intentions of the company as a whole. It is a problem for principals to prevent agents from advancing their own interests first. Systems of incentives are used in the form of a specific repertoire of stimuli, reconciling the interests of the enterprise and managers as principals with the interests of employees fulfilling the role of agents. Systems of this kind are usually assisted by the tools of supervision, control (monitoring) and communication.
5. Information asymmetry – in a classic situation, the agent is better informed than the principal due to his/her direct involvement in the negotiated situation. The opposite situation may happen if the representative has not been provided with the appropriate data. Not only the aims and activities of the two entities concerned, pursuing their own interests, but also organisational malfunctions may be the source of an inadequate

level of satisfaction of information needs within the considered agency relationship. It may be caused in particular by the inefficient information system, inadequate selection of people performing both roles, lack or limitation of competences, improper division of authority and responsibilities causing conflicts of competence, etc.

6. Attitude to risk is associated with the improper performance of duties, which poses a threat to the achievement of the objectives of the company. Consequently, there is uncertainty as to the outcome of the negotiations. The risk is higher in the case of informal representatives, although they may have a greater 'benefit of the doubt' in the group, and external agents, because it is difficult to control them as they are 'out of reach' of the formal organisation ordering them to carry out a specific task. This latter type of risk can be potentially limited by appropriate clauses in the contract specifying the scope of the task, the mandate and responsibility, the reservation of the right to terminate the contract and possible penalties for non-compliance, that is failure to perform the task, failure to meet the deadlines, failure to comply with standards of quality, security or technological standards, etc. In the model approach, the principal is neutral to risk, but in the company, escaping responsibility he/she can avoid risk. The agent is hypothetically neutral to risk, or often avoids it because is motivated by job security and income stability. Both considered entities may be more willing to risk in order to pursue their own interests, especially when gratification is attractive. This happens especially when control mechanisms are ineffective, both in the case of the given negotiation and in the company as a whole. In order to limit the risk, appropriate rules, regulations, procedures and instructions binding the agent are used. On the one hand, they limit or structuralise risk; on the other hand, they can be used by agents to achieve their particular objectives, especially as a means of minimising their own risk or even 'evading responsibility'. Formal organisational solutions can introduce sanctions for improper performance of tasks.
7. Costs of representation – these are mainly costs of monitoring borne by the company but in internal regulations responsibility, or at least a part of it, can be assigned to a particular principal with the possible application of sanctions for inappropriate fulfilment of duties, for example, mismanagement, abuse, incurring losses. Secondly, there are bonding expenditures that are treated the same way as before, but with respect to the agent. Third, there is a residual loss. This kind of cost is borne by the principal, or *de facto* the organisation as a whole. Besides

the specificity of agency relationships, organisational malfunctions listed above may also be a source of cost under consideration. Agency costs can be reduced by designing and implementation of organisational solutions limiting risk (as above) and elimination of the mentioned mistakes: improvement of systems and potential of human resources. It is also necessary to keep current accounts and to analyse these costs, especially when hiring external agents.

8. Form of the contract – most often explicit contracts (formal) are used, with the exception of representatives-leaders, having real authority. In the case of internal agents, contracts result directly from formalised employment relationships, i.e. internal regulations. This role is fulfilled by contracts of employment, managerial contracts or freelancer agreements, which also apply to external agents. Stimuli should be used depending on the situation (both solutions are useful) depending on their predicted effectiveness, for example, it is not possible to use incentives that perfectly reconcile the interests of both parties, i.e., according to the rule: the agent will benefit when the company benefits. Contracts can be based on:
  - the result – it is applicable when the ability to ‘programme’ the agent’s actions is limited, they are related to the result that is predictable, easy to estimate, the duration of the contract is shorter and there is a potential or real conflict of interest between the two entities; contracts of this kind do not require extensive information systems, as a rule they are used for one-time or occasional orders, theoretically favouring the interests of the principal, with their standard reluctance to risk;
  - the behaviour – they are used when it is possible to ‘programme’ the agent’s actions, it is difficult to determine the link between the outcome of the negotiation and his/her actions, the result is uncertain or difficult to evaluate, the duration of the contract is longer and there is no potential (real) conflict of objectives between both entities; contracts of this type require the development of information systems, as a rule they apply to routine repetitive negotiations, favour the interests of agents with their stereotypical indifference to risk

The presented concept of the description of negotiations in the company using the basic categories of the agency theory allows us to understand the interdependence between the firm’s various stakeholders who are negotiating parties, considering it as the relationships of agency. The application of the discussed theory enables us to make a precise and comprehensive description of this type of relationship in negotiations and facilitates the identification,

analysis and solution of arising problems, especially the issue of granting authority in negotiations to agents<sup>41</sup> and controlling their operation, in particular in terms of minimising risk and reducing information asymmetry.

## CONCLUSION

In conclusion, it should be stated that the analysis of negotiation in the company from the point of view of the theory of the firm allows us to grasp the essential features and premises of such negotiations. The most important benefits of applying the above-mentioned theories to characterise the negotiations under consideration are as follows:

1. On the basis of the theory of inter-organisational relations it is possible to identify the external determinants of negotiations in the company and to indicate the forms of its integration and cooperation, constituting an object of negotiations with entities in the environment which are the partners of these negotiations.
2. The application of the transaction cost theory allows us to choose potential negotiating partners, decide whether to enter into the negotiation, estimate the bargaining power of the parties and facilitate the assessment of the negotiation effectiveness.
3. The stakeholder theory and analysis provide the basis for identifying those groups and entities with which the firm should negotiate (especially multilaterally and within the coalition) and the nature of relations with them, and in particular for estimating their impact paying special attention to the need to meet their demands through negotiations.
4. On the basis of the contract theory it is possible to establish the form of the contract between negotiating parties, to facilitate the specification of its individual provisions, as well as to limit potential risk connected with its implementation.
5. The agency theory explains thoroughly and comprehensively the specificity of the given negotiation, accurately defines the status and position of the partners and the nature of the relationship between them, taking into account its key characteristics.

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<sup>41</sup> Fisher, R., Davis, W. 1999. Authority of an Agent. When is less better? In: Mnookin, R.H., Susskind, L.E. eds. with Foster. P.C. *Negotiating on Behalf of Others. Advice to Lawyers, Business Executives, Sports Agents, Diplomats, Politicians and Everybody Else*. Thousand Oaks, CA: Sage Publications.

In order to fully explain the essence of negotiations in the company it is advisable to apply an integrated approach to their description and analysis, that is to combine the categories used in the theories presented in this paper, with strictly managerial concepts such as delegation of authority, management through goals and results, information management and information system design, effective motivation models, especially remuneration, employee talent and competence management, etc.

In order to specify the determinants of negotiations in the company, one should take into account, on the one hand, their external conditions, especially those described by the theory of inter-organisational relations, on the other hand, their internal determinants, including the problems of cooperation and coordination, and organisational conflicts. This will allow you to obtain a complete and comprehensive description of the specific negotiation cases in the company.

As can be easily seen, the above statements contain both the conclusions from the above considerations and the direction of further research in the area of negotiations in the company, i.e. oriented towards the concretisation of their characteristics and conditions. This will be possible through operationalisation in the form of adequate parameters and determinants. In addition, comparative research is planned, the effects of which will be used to specify these features and to create a catalogue of utility solutions and case studies illustrating the impact of the theories discussed in the article on the analysis and implementation of negotiation processes in the enterprise.

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## SELECTED THEORIES OF THE FIRM AS A BASE FOR NEGOTIATION DESCRIPTION

### Summary

The article is of a theoretical nature and is based on a comparative analysis of the literature on the subject. Its aim is to present the synthetic characteristics of those of firm theories (economic ones and management concepts related to them) which are most important for the description of negotiation processes in a company, as well as to show for what purposes these theories can be used in the area under consideration. Undertaking the above-mentioned objectives is justified by the need, on the one hand, to create theoretical foundations of the precise and comprehensive identification and analysis of negotiation processes in the enterprise and, on the other hand, to provide the necessary conditions for the efficient execution of these processes, i.e. their planning, conducting and summing up. In the subsequent part of the paper the following theories are characterised: of inter-organisational relationships, transactional costs, stakeholders, contract and agency. The presentation of each of them comprises two components: its synthetic characteristics and determining its place and role in conducting negotiation processes in a company. In the summing up section of the paper the conclusions from the considerations are presented as well as the directions of further studies are indicated.

## WYBRANE TEORIE PRZEDSIĘBIORSTWA JAKO PODSTAWA OPISU NEGOCJACJI

### Streszczenie

Artykuł ma charakter teoretyczny i jest oparty na analizie porównawczej literatury przedmiotu. Jego celem jest przedstawienie syntetycznej charakterystyki tych spośród teorii przedsiębiorstwa (ekonomicznych oraz związanych z nimi koncepcji z nauk o zarządzaniu), które mają najważniejsze znaczenie dla opisu procesów negocjacyjnych realizowanych w firmie, a także wskazanie zasadniczych kierunków wykorzystania tych teorii w rozważanym obszarze. Podjęcie realizacji wskazanych wyżej celów jest uzasadnione koniecznością stworzenia podstaw teoretycznych zarówno precyzyjnej i wszechstronnej iden-

tyfikacji oraz analizy procesów negocjacyjnych występujących w przedsiębiorstwie, jak i zapewnienia niezbędnych warunków do sprawnej realizacji tych procesów, tj. ich planowania, prowadzenia i podsumowania. W kolejnych częściach artykułu scharakteryzowano kolejno następujące teorie: relacji międzyorganizacyjnych, kosztów transakcyjnych, interesariuszy, kontraktową i agencji. Prezentacja każdej z nich obejmuje dwa elementy: jej syntetyczną charakterystykę oraz określenie jej miejsca i roli w realizacji procesów negocjacyjnych w firmie. W podsumowaniu artykułu przedstawiono wnioski z rozważań oraz wskazano kierunki dalszych badań.

## ВЫБРАННЫЕ ТЕОРИИ ПРЕДПРИНИМАТЕЛЬСТВА КАК ОСНОВА ОПИСАНИЯ ПЕРЕГОВОРНОГО ПРОЦЕССА

### Резюме

Статья имеет теоретический характер и основана на сравнительном анализе предметной литературы. Её целью является представление синтетической характеристики тех теорий предпринимательства (экономических и связанных с ними концепций из области теорий управления), которые являются особенно важными при описании переговорных процессов, имеющих место в компании, а также указание основных направлений в рассматриваемой области. Переход к реализации упомянутых выше целей обусловлен необходимостью создания теоретических основ как точной и всесторонней идентификации и анализа переговорных процессов, выступающих в предпринимательстве, так и обеспечения необходимых условий чёткой реализации этих процессов, в частности, таких, как планирование, проведение и подведение итогов. Следующая часть статьи содержит характеристику последовательно представленных теорий: межорганизационных отношений, транзакционных издержек, заинтересованных сторон, контрактной теории и агентства. Презентация каждой из них охватывает два элемента: её синтетическую характеристику, а также определение её места и роли в реализации переговорных процессов в компании. В заключительной части статьи представлены выводы на основе рассуждений и указаны направления дальнейших действий.