

# NEGOTIATOR COMPETENCY AND EFFECTIVE BUSINESS NEGOTIATION: THEORIES AND PRACTICE - THE CASE OF SRI LANKA

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## **Abstract**

*There is a need for individuals to gain negotiating skill in order to be successful in their work places. For business negotiation to be successful one should reconcile the interests of the parties that are negotiating and not their positions. The negotiation skills - conceptual, technical and human - vary among individuals in organizations and countries. This paper will investigate the negotiating skills of executive in public sector of Sri Lanka. Two surveys were conducted on two executive teams from Sri Lanka who attended the international management training courses at Faculty of Business Administration, Kasetsart University, Bangkok, Thailand during 21-25 August with 37 participants, and 4-10 December, 2017 with 45 participants. The results of the study revealed that the first group of executives agreed with the third level of nine theories which influence “effective business negotiation”. The second group of executives placed emphasis on the human relationship skill of the leaders more than on the technical skill and the administrative skill, though the administrative skill is the most effective negotiator competency to lead to the effective business negotiations.*

## **1. Introduction**

Negotiations occur when two or more individuals/organizations/countries/groups try to influence one another in the decision-making process to achieve their objectives or those of all the parties concerned (Agndal, 2007). Many studies on business negotiation always propose factors that influence business negotiation at the individual or personnel level. Most of them propose that business negotiation may have five steps: namely, 1) preparation, 2) information exchange, 3) solution seeking, 4) concession management, and 5) outcome. The details in those five steps are related to the personnel management problems more than the firm’s business problems. Some of them propose that negotiation is a process through which the two parties with differences need to resolve and try to reach agreement through exploring options and exchanging offers. These activities are mostly concerned with the employee and management level in the firm.

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At the same time, some studies concerning the business negotiation at the international level prefer to talk about international culture more than international business activities.

It is misleading to dig into details of international culture more than business goals or business objectives. Some studies do not realize that if we pay complete attention at the negotiator specific factors, it will arrive at the best alternative to negotiation agreement or BATNA. Business misleading and mis-functional situations often occur in the general business arena. Organizations carrying out negotiations that are professional so as to achieve business objectives could be termed business negotiations. The commonest form of business negotiation is negotiation about price between two trading organizations (Agndal, 2007).

This paper examines the business negotiation skills of the executive public sector employees in Sri Lanka. It proposes three levels of factors affecting effective business negotiation. The first is the factors at country or national or industry level. The second is the factors at the firm or business level. The third is the factors at the individual or personnel level. The negotiators who have competency on conceptual leadership skill with the knowledge and understanding of the three factors or twelve measurements will be good negotiators and their negotiation will lead to “effective business negotiation”.

## **2. Theoretical Review**

Knowledge of effective business negotiation which enhances the peaceful economic and business manner of the negotiator will depend on the following nine business theories.

### **2.1 Five business theories at country or national or industry level**

There are five business theories relating to the international market, national market and industry at the country level.

OLI is an eclectic paradigm proposed by Dunning 1988. According to this paradigm the firm which is going to the international market, needs to earn three specific advantages. The first is O=Ownership advantage; a firm has to invest so as to have most of the stock or investment capital by the home country firm in order to have more control power over other shareholders, in case of merger and acquisition, or joint venture. The second is L=Location advantage; management of the home company must make sure that the foreign country is suitable to invest in, according to the availability of resources and low business cost, to compete with any rivals host country. The third is I=Internalization specific advantage; the host country must have low transaction and low coordination cost due to their long-run experience in the international market.

Many academicians propose that, to venture aboard, the management needs to explore the general environment of the host country. The aspects are: S=Social, P=Political, E=Economic, L=Legal, and T=Technology. If all these general external environmental factors are beneficial to the industry, they will support and provide business opportunity to the industry. But if all these external environmental aspects of the host country are not beneficial to firms of the home

country, we conclude that the external environment creates a threat to all of firms in that industry. Ansoff (1965) suggests that when a firm realizes a business opportunity, it must use the diversify strategy to gain business advantage to the firm by using four strategies of the four quadrants in his diagram. They are: current product-current market, new product-current market, new market-current product, and the new product-new market. This theory is called the diversification strategies. According to Ansoff, a firm with an existing product or existing market can strategically diversify their product or their market from the existing one to a new one or both.

The third step is that firms from the home country need to examine the number of firms in the given industry. At the industry level, even the market or industry in that host country can offer business opportunity, but it is necessary to consider the density of the rivalry in the given industry. At this point, the factors the negotiator has to explore are: the number of new entries, the number and kinds of substitute products, the bargaining power of the supplier who sent the factors of production to our company and the bargaining power of buyer that corresponds to our firm's strength and weakness. If not, we will be defeated by our competitors in those kinds of industries. .

Porter (1985), proposed that company superior performance will depend on how the firm manages their primary activities and supportive activities. The primary activities are their infrastructure, procurement, technology, and personnel management. The supportive activities, are the product manufacturing (in bound logistic, operation, and outbound logistic), sales and marketing, and after-sales services. If these all activities blend together well, the firm will achieve their profit which is called the superior performance or efficiency of the firm. Most the academicians in the area of business perceive that primary and supportive activities identify the firm's strength and weakness.

The concept of Opportunity and Threat is also elaborated by SWOT analysis by Humphrey (1979). He proposes that every firm must explore both the external environmental factors and internal environmental factors. The external environmental factors will provide the opportunity or threat to all the firms in such industry. At the same time, the internal variables of the firm in the industry will identify the strength or weakness of the firm. We can say that the external general environment creates opportunity to our company too. The general environment is external, outside our firm's control, but we can change the threat to be an opportunity by using appropriate strategies.

## **2.2 Two business theories at firm or business level: profit of the for-profit firm and surplus for the not-for-profit firm**

At the firm level, the negotiator needs to know and understand the core business goal, that is, business profit. Business profit will reflex the firm's efficiency and performance. Petchprapunkul (2010), in the D.B.A. thesis, had posited that the effective firm performance which is the firm's ultimate goal depends on many factors, both financial factors and non-financial factors. The ultimate goal of profit-firm is to look for profit. While the not-for-profit firms, such as

cooperatives organizations (Co-ops), for the most part, look only on service to their members. The surplus of the co-ops firm comes from the sales volume that exceeds the cost of sales. Therefore, surplus in the not-for-profit firm is also the same as the profit in for-profit firm. The board of directors in the not-for-profit firm will pay back those surpluses to their members in the form of patronage refund and dividend payout each year.

### **2.3 Two business theories at the individual or personnel level**

#### **2.3.1 Leadership skill**

At the individual level, the theory of leadership skill and personnel competency are critical to explain why the negotiator who achieves the better or greater competency will have a higher chance to be a good or effective negotiator more than the less skilled one. The conceptual skill or administrative skill of the leadership can cover new problems in the market, especially if the firm is a newcomer. This study had conducted a leadership skill survey as elaborated in the analysis section.

#### **2.3.2 Trade-off between principal or stockholder benefit and agent or employee benefit.**

Globalization had already led all business firms going international to many different countries. The business firm had expanded its business from the domestic market to the national, international, multinational and global market. The negotiators have to handle their function based on their firm's business benefit in the context in which the firm is operating. Many financial theorists propose that many employees perform as the agents in order to look after their benefit on the principal cost or expense. This is not fair to the owner of investment. Therefore, the good negotiators must look at the principal benefit, not themselves.

### **2.4 A conceptual framework for effective business negotiation.**

According to the theoretical review, a conceptual framework was formulated as in Figure 1; there are four measurement models composed together to form one grand structural model. To the left of the model are three independent measurements. Each independent measurement consists of four independent variables. In all, there are twelve sub-measurements. To the right of the model, there is only one dependent measurement, which composed of four sub-measurement or observed variables. Each sub-variable will be the independent variables to identify their dependent variables in the model.

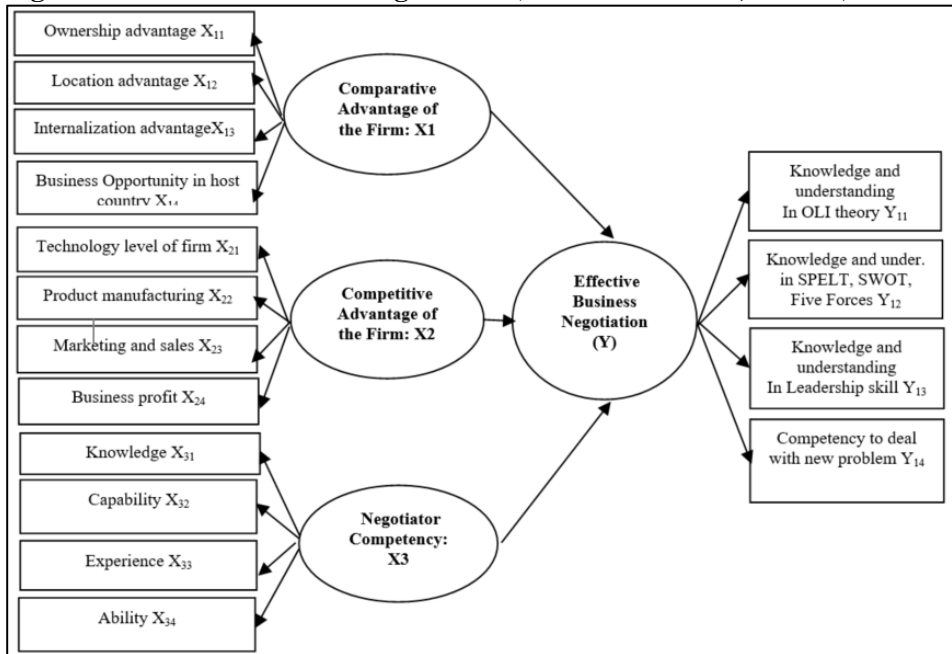
The first measurement model is composed of four factors at the country or industry level. They are Ownership advantage, Location advantage, Internalization advantage, and Opportunity of business. The second measurement model is composed of the technology level of the firm - product manufacturing, marketing and sales, and business profit of the firm. The third measurement is composed of knowledge, capability, experience, and ability of the negotiator to access the knowledge and understanding of all the factors in the first and second

independent measurement, which together comprise the competence of the negotiator in the third independent measurement. The fourth measurement model is the negotiator's effective business negotiation, which is composed of the four sub-measurements. They are:

- Knowledge and understanding in OLI theory,
- Knowledge and understanding in SPELT, Five Forces, Value chain, and SWOT.
- Knowledge and understanding in leadership skill, and
- Competence to deal with new problems.

The details are elaborated in Figure 1.

**Figure 1: Effective Business Negotiation (Structural Model, AMOS)**



In figure 1, a structural model of the AMOS software program has elaborated four groups of variables at three levels of unit analysis. Each group is comprised of four latent sub-variables. The model consists of sixteen path diagrams, which will provide the regression weight of each group in a four-path diagram. There will be only three coefficients of determination in the model which can identify the influencing power of each independent variable on the dependent variable. The statistical analysis proposed the correlation coefficient, regression coefficient, and coefficient of determination of the whole model.

### **3 Research analysis and results**

#### **3.1 Questionnaire survey**

This study used two types of questionnaires, collected data two times from the two groups of Sri Lankan executive participants who attended the International Training Program in Management at the Faculty of Business Administration, Kasetsart University in Bangkok, Thailand. The first group of respondents consists of thirty-seven persons (20 males and 17 females) attending the program during 21-25 August 2017. The second group consists of forty-six respondents attending the program during 4-10 December 2017. The first questionnaire survey was distributed on 23 August 2017 and collected back from all 37 respondents; therefore, the respondent rate is up to 100%. The second questionnaire survey was distributed on 4 December 2017, to 46 respondents, and 45 were collected; the respondent rate is  $45/46 = 99\%$ . The researcher set no gender discrimination perspectives; thus we had no division between male and female.

The first questionnaire survey was intended to collect opinions on all the factors that will influence effective business negotiation. The second questionnaire was intended to focus on the leadership skill style of the executive so as to elaborate how leadership style that can support the success of business negotiation. The questions in the first and second questionnaires are found as questionnaire 1 and questionnaire 2 in the appendix to this study.

#### **3.2 Research results**

In the first survey, the all 37 respondents agreed with all the variables asked in the questionnaire. Therefore, the researcher can summarize and relate to the research model as elaborated in Figure 1. According to the Multiple Regression analysis, the coefficient of determination or  $R^2$  of the model shows the result of 78.3% which identifies that all the factors are consistently together so as to explain that the model fits effective business negotiation. However, in each measurement model, there is low coefficient of determination value or lower  $R^2$ . This means that each measurement model alone, cannot or is not enough to explain the influencing power of each variable on effective business negotiation. Moreover, there is no correlation between each of the two factors over 35%; this implies that both factors are important and retain their identity to explain the model. No any heterosyndasticities and autocorrelation occur.

In the second survey, the research found that most of the respondents, 22 persons or 44.89%, concentrated on the human relationship skill, 15 persons or 30.61% on technical skill, and only 12 persons or 24.48% on the conceptual skill. The respondent opinion showed that Sri Lanka respondents concentrate most on the human relationship skill of the leadership style, the so-called pro-human relation aspect, while the most critical perspective of a good negotiator should be to concentrate on the administrative skill or conceptual skill. Research done in negotiations in the Asian context have indicated that Asians prioritize relationships when conducting business negotiations as opposed to their American & European counterparts (Swierczek, 1990).

These two studies provided the information that the Sri Lankan respondents agreed with the factors at three levels for effective business negotiations of firms, but they paid more attention to human aspects than to organization duty aspects. Therefore, it could be deduced that the executives require formal training in business negotiation skills so as to develop themselves into becoming effective business negotiators.

#### **4 Conclusion**

Sri Lanka being an Asian country has a relationship pro negotiation style similar to other Asian countries as indicated in the research results done via surveys (see above). It also indicates that the public sector participants need to concentrate more on the critical negotiation skills in the areas of conceptual and administration. From these two surveys, it can be inferred that the Sri Lankan executives who participated in the management training program at the Faculty of Business Administration, Kasetsart University, Bangkok, Thailand, have the potential to develop into good and effective business negotiators, but require formal training in the required skills.

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**Appendix:**

Questionnaire 1: Capability and Ability of Negotiator in International Business Negotiation

Suggestion: Respondents are invited to answer these 21 questions. Suppose you have to select one of your subordinates to be the negotiator to go abroad to negotiate so as to solve a business dispute between your organization and your foreign opponent. To what extent do you agree or disagree with the following factors that your subordinate must focus and qualify, and at what level.

1=Definite improvement, 2=Possible improvement, 3=Satisfactory, 4=Strength, 5=Exceptional Strength.

Part 1: Background of respondent (Descriptive statistics)

- 1 Respondent gender  Male.....Female.....
- 2 Age of respondent  .....
- 3 Level of education  Below Bachelor  Bachelor  Master  
 Over Master
- 4 How long have you worked with this organization  
 1-3 years  4-6 years  7-9 years  
 more than 10 years
- 5 Please indicate your city or state.....

Part 2: Information about business negotiation and negotiator characteristic

Factors	
1	Negotiation, mediation, and dispute resolution professionals are the same.
2	Bargaining is to describe the competitive, win-lose situation.
3	Negotiation resolution aims at win-win situations but its core is give-and-take.
4	Negotiator must follow integrating negotiation pattern more than distributive.
5	Negotiator should not use win-lose or distributive strategy or zero-sum game.
6	Firm must focus on and encourage strength while reducing weakness.
7	Firm must try to construct value chain by raising company primary activities: (inbound, operation, outbound, marketing, sales and service), and secondary activities (Infrastructure, Procurement, Personnel, Technology) according to Michael E. Porter 1985 model: Competitive Advantage: Creating and sustaining superior performance.
8	Firm has to explore the industry rivalry intensity to evaluate their competitive level at the industry level, according to Michael E. Porter



	1980: Competitive Strategy: Technique for Analyzing Industries and Competitors
9	According to Porter (1980), Firm has to appraise the affection of the new entries, and substitute product to the supply and demand of the market.
10	According to Porter (1980), Firm has to appraise the affection of bargaining power of consumer and supplier to the firm.
11	At national level, negotiator has to realize that individual personnel, even producer of the firm cannot change threat to be opportunity, because threat and opportunity are factors at the industry or country level. Individual person/top management cannot change industry measures or government industrial policy level.
12	At national level, if a country had higher competitiveness or higher national competitive advantages, such country will enjoy higher negotiation power than the other.
13	At national level, we can take economic surplus by blending consumer surplus and producer surplus into one, for example the cooperatives economics.
14	Government policy will be intervening variables at the national level.
15	If the business leader of each organization had corporate governance, such industry will achieve growth of business and country prosperity.
16	Negotiator has to encourage cooperatives economics more than capitalism economic system.
17	Negotiation at the international level must be try to make the world a more peaceful and prosperous place.
18	At international level/global level, negotiator must promote win-win situation more than win-lose
19	At international level or global level, negotiator must promote integrative more than distributive.
20	If the world leader had the real institutional economic, good governance, the world will come out with no disputes.
21	You agree that if the firm or country enjoys both negotiator knowledge of international business or international management together with the firm and country competitiveness over the opponent negotiator or country, the negotiation is likely to be always successful.

Please indicate your overall satisfaction level regarding your subordinate that you had just selected to be the negotiator of your organization:  not very satisfactory  not satisfactory  less than satisfactory  satisfactory  very satisfactory. And please indicate your suggestions regarding this questionnaire and this research.

**Questionnaire 2: Leadership Skills Instrument Questionnaire (Skills Inventory)**

Instructions: Read each item carefully and decide whether the item describes you as a person. Indicate your response to each item by circling one of the five numbers to the right of each item

Key:	1 Not true	2 Seldom true	3 Occasionally true	4 Somewhat true	5 Very true
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1	I enjoy getting into the details of how things work.	
2	As a rule, adapting ideas to people’s needs is easy for me.	
3	I enjoy working with abstract ideas.	
4	Technical things fascinate me.	
5	Being able to understand others is the most important part of my work.	
6	Seeing the big picture comes easy to me.	
7	One of my skills is being good at making thing work.	
8	My main concern is to have a supportive communication climate.	
9	I am intrigued by complex organizational problems.	
10	Following directions and filling out forms comes easily to me.	
11	Understanding the social fabric of the organization is important to me.	
12	I would enjoy working out strategies for my organization’s growth.	
13	I am good at completing the things I’ve been assigned to do.	
14	Getting all parties to work together is a challenge I enjoy.	
15	Creating a mission statement is rewarding work.	
16	I understand how to do the basic things required of me.	
17	I am concerned with how my decisions affect the lives of others.	
18	Thinking about organizational values and philosophy appeals to me.	

**Solution:** The skills inventory is designed to measure three broad types of leadership skills: technical skill, human relation skill, and conceptual or administrative skill. Sum up items 1, 4, 7, 10, 13, and 16 to define the respondent’s technical skill score. Items 2, 5, 8, 11, 14, and 17 aims to define the human relation skill score. Items 3, 6, 9, 12, 15, and 18 aims to define the conceptual skill or administrative skill score of the respondent.

**Scoring interpretation:** 23-30 High Range, 14-22 Moderate Range, 6-13 Low Range. The score you received on the skills inventory provides information about

your leadership skills in three areas. By comparing the differences between your scores, you can determine where you have leadership strengths and where you have leadership weaknesses. Your scores also point towards the level of management for which you may be most suited.

