

A Tale of Two Partners: Differences in the Relationship Development of Buyers and Sellers in a Negotiation

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Abstract

Relationship development in the business context can be influenced by several direct and indirect factors. The role of the business partner is one factor that is considered in this study. Research in social psychology, sociology, economics, and marketing in the domain of buyer-seller relationships and negotiations is reviewed. The differential impact of attitudinal trust, subjective norms, commitment and relationship strength on the outcome of buyers and sellers in a simulated business-to-business negotiation is examined. Results from over seventy negotiating pairs in a longitudinally structured experiment role-playing to be either the buyer or the seller are reported. The behavioral outcomes of buyers and sellers are compared. Finally, specific directions for extending this research are presented.

Keywords : *Relationship Strength, Buyer - Seller relationships, Negotiation behaviour, Attitudinal Trust, Subjective norms, Commitment*

Introduction

The process of the development of business relationships have been studied by researchers in marketing and management for several decades (Anderson and Weitz 1989; Morgan and Hunt 1994; Patton and Balakrishnan 2009). Some of the seminal work in negotiations dates back several decades (Raiffa, '82). However, by virtue of being a process, relationships are developed over several interactions or exchanges and spread over time. Empirical research using longitudinal studies incorporate the element of time periods measured in weeks, months or years. Basic and conceptual research aims to limit the interference of extraneous factors and keep certain conditions of the research under control – a state that is difficult to achieve in longitudinal studies. Bhagat (2009) shows that the desired research objectives can be achieved by simulating a longitudinal study in an experimental setting.

Dyadic studies of interpersonal relations have been shown to explain and interpret relationships better than a unilateral or individual-level analysis. However, there is value in understanding the motivations and behaviours of the partners in a negotiation based

on the role they play. This study attempts to compare and contrast the role of a buyer with that of a seller in the context of a simulated business-to-business bargaining and negotiation.

The next section provides a review of extant literature spanning the domains of relationship marketing, social and cognitive psychology, and negotiation behaviours. Subsequently, the full conceptual relationship development framework is presented and the key variables discussed. The methodology section briefly explains the content and context of the study. The analysis section discusses the statistical findings and their theoretical implications. Finally, the conclusion and discussion section provides managerial implications and directions for future work extending this research.

Literature Review

Trust or “a generalized expectancy held by an individual that the word of another can be relied on” (Rotter 1967) has been recognized as an essential precursor of a strong relationship.

Doney and Cannon (1997) identify five processes in the formation of trust: a calculative process based on costs and benefits; a prediction process based on forecasting the other party's

credibility and benevolence; a capability process based on the ability of the partner; an intentionality process based on interpreting the intentions in the exchange; and a transference process based on perception of a known source. The dimensionality of trust has been studied in management and marketing. While many researchers see trust as unidimensional (Anderson and Narus 1990, Moorman et al. 1992), others are proponents of a multidimensional conceptualization of the construct (Ganesan 1994). Along with trust, Ganesan also simultaneously studied the impact of dependence on the time orientation of the buyer.

The relationship between trust (as an attitude), norms, intentions and behaviours have been modeled (Fishbein and Ajzen 1975; Ajzen 1991), discussed (Madden, Ellen and Ajzen 1992) and applied in diverse fields (Voss et al. 2006; Cooke and French 2008). A brief pertinent summary of this past research is provided under the discussions of the framework in the next section.

In an empirical study, the implications of short- versus long-term orientation on buyer-seller relationships have been studied by Ganesan (1994) in the context of retail buyers and vendors. Short-term orientation makes buyers concerned with the alternatives and outcomes of the current period while a long-term orientation frees the partner to consider future goals and outcomes too. Further, the author argues that a short-term orientation makes the exchange partner rely on the efficiencies of market exchanges to maximize their profits whereas a long-term orientation allows a focus on relational exchanges to maximize profits over a series of transactions. An intermediate stage of time orientation is assumed in this paper.

Relationship Development Framework

Trust, behavioural intentions and subjective norms before the introduction of the partners based on a priori expectations of the partners would be the essential building-blocks of all relationships. Trust has been defined as a belief that one relationship partner will act in the best interest of the other (Wilson, 1995). Moorman et al. (1992) define trust as “a willingness to rely on an exchange partner in whom one has confidence.” Cater (2008) notes that the concept of trust is seen as a belief, feeling or expectation about an exchange partner.

Fishbein and Ajzen's (1975) model of the Theory of Reasoned Action shows the relationship of belief, attitude, behavioural intention and behaviour. The authors argue that a person's attitude toward an object influences the overall pattern of his response but may not be a causal relationship. In other words, for attitude to predict behaviour, there needs to be a high correlation between the intention and behaviour. Trust is being defined here as an attitude formed based on a belief or expectation of how the exchange partner is going to behaviour. In the Theory of Planned behaviour, Ajzen (1991) adds perceived behavioural control as an exogenous variable influencing both intentions and behaviours. In the proposed model, the required conditions for intentions to predict behaviour – stability of intentions between time of measurement and performance of the behaviour, and the degree to which carrying out the intention is under the volitional control of the individual (Madden, Ellen and Ajzen 1992) – are met in the controlled experimental setting for the negotiations.

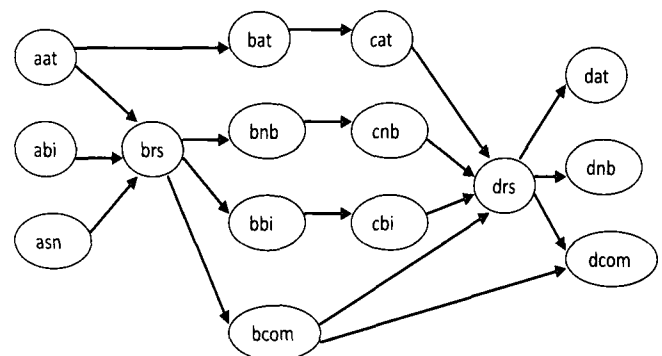
Morgan and Hunt (1994; also see Dwyer, Schurr and Oh 1987) define relationship marketing as “all marketing activities directed toward establishing, developing, and maintaining successful relational exchanges”.

While the context of the three negotiations is business marketing, we acknowledge the domain is not strictly relationship oriented. First, the “relationship” evolves only over a short period of time. Second, while there is an expectation of future interaction, the participants in the experiment know that there will be only three rounds of negotiations. Third, while it is not expected that the negotiating partners know (i.e. have a relationship) each other prior to the negotiation, there could be negotiating pairs that have met prior to the negotiation. Finally, while the role played by an exchange partner may be that of a buyer or a seller, their role in the real world is the same – that of a student. A fair assumption would be that the relationship is intermediate between a strictly business relationship and a personal friendship (Cater 2008).

Figure 1 shows the proposed Relationship Development Framework. This framework extends the work of Bhagat (2009) by clearly specifying relationships among all the variables considered. While the key below the figure gives the variable names, an explanation for each is given next. It is assumed that each individual begins a relationship with an a priori level of trust (at) of the business partner. Such trust may not be the same between individuals and may even differ by their role as a buyer or a seller. Further, each partner goes into a negotiation with a certain intention to behaviour (bi). The partner also brings to the table his or her norms (sn) based on the partner's social and professional background, role expectations and experiences. These three variables impact the strength of relationships. Relationship Strength (rs) captures not just the direction of the relationship but the intensity as well (Bhagat and Williams 2002). All of these variables impact the level of Commitment (com) (Mathieu and Zajac 1990, Morgan and Hunt 1994) of the partner to

the relationship as well the kind of negotiating behaviour (nb) – cooperative or competitive. The level of these variables changes dynamically subsequent to each negotiation based on the perception of the fairness of the respective outcomes. Tracking the changes in the level of the variables will indicate the development of a relationship over the period of the experiment.

Figure 1
Relationship Development Framework



Key for the abbreviated variables in the model and the analyses:

at – trust
bi – intention
sn – norms
rs – relationship strength
nb – negotiation behaviour
com – relationship commitment
prefix 'a' before a variable – measure before entering into the first negotiation
prefix 'b' before a variable – measure at the end of the first negotiation
prefix 'c' before a variable – measure at the end of the second negotiation
prefix 'd' before a variable – measure at the end of the third negotiation

Methodology

The data consists of 140 individual subjects who were divided into negotiating pairs to take part in the study. Typically, there were between 5-8 negotiating pairs in the room at a time. Subjects were randomly allocated to negotiating pairs as they walked into the room. The experiment was designed so that a series of three longitudinally structured, marketing-related negotiation sessions be conducted. The three role-play scenarios increased in level of complexity. The level of complexity was varied by the number of

issues on which decisions were made by the partners during the negotiation: 1, 3, and 5 issues per negotiation respectively. Measurements were taken at four different times during the two-hour session. The negotiating partners were tracked through three negotiations with before-after measures taken at each stage.

Descriptive statistics was used to identify and describe various parameters for the data set and to examine the distributions. Other inferential statistical methods for comparing the two groups survey results and for testing the equality of averages or homogeneity among various groups or participants were also obtained.

P-values, which indicate the observed level of significance for testing various hypotheses, were generated for each comparison under study. If P-value is zero or close to zero, the hypothesis that the true difference is zero can be rejected and it is concluded that the group averages for that particular group attributes are not the same. In the following subsections, the t-test for testing the hypothesis that there was no change in attributes between stages along with the t-test for testing the equality of group averages are obtained and discussed.

Analysis and Discussions

A series of 'Two Independent Samples' t-tests were conducted to ascertain the differences between the buyers' group and the sellers' group with regard to each variable in the model. Variable 'brs', measuring the relationship strength at the end of the first phase of the negotiation process, exhibited a statistically significant difference ($p < 0.05$) between the buyer and the seller. The comparatively higher mean value of 3.696 for the seller group compared to the mean value of 3.444 for the buyer group indicates that the seller is more conscious about maintaining a strong

relationship in the dyad. This signals a typical scenario of competition in the dynamic marketplace wherein organizations implement varied tactics and strategies to harness a continuing relationship with fickle buyers. Thus the entire focus of customer lifetime value and customer relationship management systems wherein the inherent drive for the sellers to initiate, cultivate, and sustain transactional and relational exchanges with the buyer manifests in the ongoing activities of marketing as an integral function of the business. Variable 'abi', measuring the behavioural intention of each transacting entity toward the commencement of the negotiation episode, exhibited a statistically significant difference ($p < 0.1$) between the buyer and the seller. The slightly higher mean value of 3.783 for the seller group compared to the mean value of 3.611 for the buyer group indicates that the seller is more cognizant about the necessity of good transaction behaviour to start a smooth negotiation process, and hence would maintain a more honest, respectful, responsive, and forthcoming conduct with the buyer.

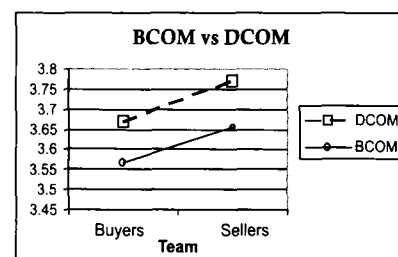
Further, a series of 'Paired Two-Sample' t-tests were conducted individually for the buyers' group as well as for the sellers' group to examine the differences between each group's relationship strength at the end of the first negotiation (brs) and at the end of third negotiation (drs). For the buyers' group, the statistically significant group difference ($p < 0.05$) indicates that relationship strength does grow over time as the transacting entities engage in more interactions; thus the relationship does strengthen as it matures with more sharing of goods/services, thoughts, ideas, skills, intelligence, resources, competencies and other requirements during the negotiation process. This is evident in the slightly higher mean value of 3.5914 for drs compared to the mean value of 3.4443 for brs, showing that the

relationship strength perceived by the buyers is higher as the negotiation episode transcends with time. However, for the sellers' group, no difference was observed in their relationship strength perceptions between the end of the first and third negotiations. This probably would imply that sellers emphasize relationship strength from the very beginning of the negotiation process and work to maintain it throughout. These results are somewhat in line with Macneil's (1986) relational norms of solidarity, mutuality, and role integrity in transaction behaviour. During the course of the negotiation episode between the buyer and seller, each transacting entity becomes aware of its respective role to be played in the dyadic relationship, and behaves accordingly, so as to stand by and support the other entity in the task.

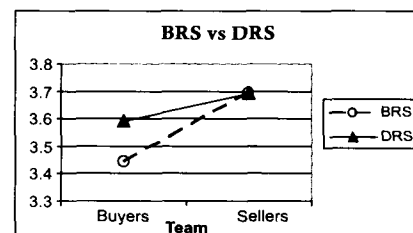
Thereafter, a series of 'Paired Two-Sample' t-tests were conducted individually for the buyers' group as well as for the sellers' group to examine the differences between each group's relationship commitment at the end of the first negotiation (bcom) and at the end of third negotiation (dcom). For the sellers' group, the almost statistically significant group difference ($p < 0.05$) indicates that the commitment level of the seller does tend to grow as the relationship advances from the first to the third stage of negotiation, as showed by the slightly higher mean value of 3.7704 for dcom compared to the mean value of 3.6554 for bcom. However, for the buyers' group, no difference was observed in their relationship commitment between the end of the first and third negotiations. This leads to speculation about buyers' intention to be committed to the relationship in the dyad, in light of the scenario of business markets' competition wherein buyers can opportunistically seek value from any seller who can deliver at the asking. The variety of offerings' economies of scale and scope available in the

marketplace empower the buyer to exploit the market mechanism for exploring several supply sources to meet its demand at a fair price; thereby, leaving minimal incentives for the buyer to engage in committed relationships with single or few sellers, and encourage switching behaviour for the buyer even in lieu of switching costs. Thus, buyers would thereby be looking out for purely their self-serving interests, by engaging in optimally valued transactions alone, without needing or heeding to develop bonds with sellers for a committed relationship.

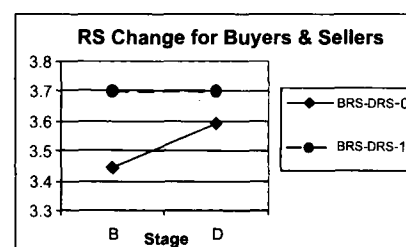
Figure 2
Mean Comparison Among Teams and Between Stages



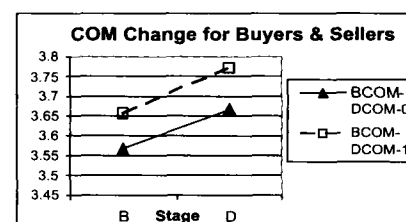
(a)



(b)



(c)



(d)

Table 1
Two Independent Samples T-Test and Confidence Interval

	Team	N	Mean	StDev	95%_CI_for mu(0)-mu(1)	T-Test mu(0)=mu(1)	P-value
ABI	0	70	3.611	0.609	-0.353,0.010	-1.87	0.064**
	1	70	3.783	0.47			
ASN	0	70	3.729	0.669	-0.393,0.038	-1.63	0.11**
	1	70	3.906	0.619			
AAT	0	70	3.154	0.581	-0.312,0.116	-0.91	0.37
	1	70	3.252	0.695			
BAT	0	70	3.234	0.645	0.313,0.113	-0.93	0.35
	1	70	3.334	0.628			
BNB	0	70	3.645	0.619	-0.234,0.158	-0.38	0.7
	1	70	3.683	0.552			
BBI	0	70	3.739	0.627	-0.313,0.105	-0.99	0.33
	1	70	3.843	0.623			
BRS	0	70	3.444	0.536	-0.436,-0.067	-2.69	0.0079*
	1	70	3.696	0.568			
CAT	0	69	3.362	0.799	-0.205,0.287	0.33	0.74
	1	70	3.321	0.661			
CNB	0	70	3.663	0.641	-0.251,0.159	-0.44	0.66
	1	70	3.709	0.587			
CBI	0	70	3.727	0.663	-0.321,0.118	-0.92	0.36
	1	70	3.829	0.648			
DRS	0	70	3.591	0.581	-0.323,0.114	-0.94	0.35
	1	70	3.696	0.719			
DCOM	0	70	3.668	0.521	-0.296,0.091	-1.05	0.3
	1	70	3.77	0.633			
DAT	0	70	3.377	0.756	-0.449,0.31	-0.37	0.71
	1	70	3.45	1.41			
DNB	0	70	3.605	0.691	-0.316,0.132	-0.81	0.42
	1	70	3.697	0.647			
BCOM	0	70	3.568	0.465	-0.243,0.068	-1.12	0.27
	1	70	3.655	0.464			
BRS-0	0	70	3.444	0.536	-0.334,0.040	-1.56	0.12
DRS-0	0	70	3.591	0.581			
BRS-1	1	70	3.696	0.568	-0.216,0.216	0	1
DRS-1	1	70	3.696	0.719			
BCOM-0	0	70	3.568	0.465	-0.265,0.065	-1.2	0.23
DCOM-0	0	70	3.668	0.521			
BCOM-1	1	70	3.655	0.464	-0.300,0.070	-1.23	0.22
DCOM-1	1	70	3.77	0.633			

* Significant at 0.05

** Significant at about 0.10

continued

Table 2
Paired Two-sample T-Test and Confidence Interval

	Team	N	Mean	StDev	95%_CI_for mu(0)-mu(1)	T-Test mu(0)=mu(1)	P-value
BRS-0	0	70	3.4443	0.5361			
DRS-0	0	70	3.5914	0.5813			
Diff-0	0	70	-0.1471	0.5244	-0.2722,-0.0221	-2.35	0.022*
BRS-1	1	70	3.6957	0.5676			
DRS-1	1	70	3.6957	0.7186			
Diff-1	1	70	0	0.5878	-0.1402,0.1402	0	1
BCOM-0	0	70	3.5679	0.4646			
DCOM-0	0	70	3.6679	0.5212			
Diff-0	0	70	-0.1	0.5428	-0.2294,0.0294	-1.54	0.128**
BCOM-1	1	70	3.6554	0.4635			
DCOM-1	1	70	3.7704	0.6334			
Diff-1	1	70	-0.115	0.4996	-0.2341,0.0041	-1.93	0.058*

* Significant at 0.05

** Significant at about 0.10

Conclusion and Future Research

This research study attempts to investigate the key attitudinal and behavioral elements involved in the dyadic negotiation process between a buyer and a seller. It examines some interesting differences between the buyer and the seller operating in a business exchange scenario; holistically, the results shed light on how buyers in a dynamic competitive marketplace today tend to give credence to purely the transactional aspect of the exchange, while sellers try to weigh important both the transactional and the relational norms of the exchange process.

Future research will aim to assess the differential impacts of variables along the negotiation path in order to explain and predict the direct and indirect relationships between the negotiation-variables employed in this research model. A series of multiple regressions will be conducted at different stages in the negotiation episode to determine how the buyers' group and the sellers' group treat focal issues like relationship strength

and relationship commitment, in terms of the model comparisons, and the differences observed between the respective regression coefficients. Thereafter, a path-analysis type empirical structure to reveal the relationship strengths between all the connected variables in the model through all the negotiation stages will be tested using structural equations modeling. It would also be of interest to test the differences between the negotiation behavior of males and females in terms of their attitudinal trust, behavioral intentions, commitment to the relationship undertaking, and negotiation behavior, to determine the bearing of gender as a key variable reflecting and manifesting in the negotiation pre-dispositions and attitudinal traits of players involved in the dyad. Further, cross-cultural differences pertaining to these negotiation-variables would also be tested to assess their relative importance between individualistic and collectivistic cultures.

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