

# 1 Asymmetrical distribution of power makes negotiations difficult

*"In slightly different terms, the economist's task is simply that of repeating in various ways the admonition, 'there exist mutual gains from trade', emphasizing the word 'mutual'..."*

*James M. Buchanan<sup>1</sup>*

People and companies have an urgent need to make a good deal. Coming to an agreement demands a negotiation of some sort. Chances are high that a negotiated agreement works to the advantage of all actors<sup>2</sup>; otherwise they would not have agreed to make it. Still there are situations where a problem arises that makes it difficult to reach a common solution. In such situations the actors often feel worse off than before the deal, as they have invested time and resources for 'nothing'.

In an economic analysis this waste of resources is called inefficiency. Efficiency as a scale in negotiations will therefore, firstly, be introduced in this chapter, to enable the later analysis of how negotiations could be handled better. Negotiations in markets where one actor heavily depends on another more often than not seem to lead to problems. It will thus, secondly, be asked if an asymmetrical distribution of power is a core issue of negotiations. It soon becomes evident that the everyday task of making a deal is more complex than would have first been expected. To allow one to grasp the complexity of power in negotiations in an economic analysis, thirdly, a structural approach is introduced. Altogether this can help to gain

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<sup>1</sup> Buchanan, 1962, p. 354.

<sup>2</sup> From the various terms for participants in power relations Dahl, 1957, p. 203, chooses the term actor. Cross, 1969, p. 7, discusses more terms. I agree that power is a relation among people, not subjects. The term 'actor' describes this best, as actors are actively involved in a negotiation, trying to reach a goal, not playing games. For the thesis I have chosen the term actor as the one that best describes the participants in negotiations. When using the term 'actors' in combination with 'both' the number of actors is not necessarily exactly two. To make it easier to handle, the terms 'actors' and 'both' are here to be understood as a representation of several (most often two) actors negotiating. See Hauser, 2002, p. 16, for a similar discussion.

more insight into the complexity of negotiations in general, hence allowing for more efficient future negotiations.

### 1.1 Efficiency of negotiations in network markets

Negotiations seem to make sense in general or, in other words, negotiations are an efficient tool for actors. Do negotiations always take place or work out to everyone's advantage, though? By trying to avoid 'difficult' negotiation situations, many negotiations that are (potentially) valuable for all actors involved are prevented from even starting. On the other hand, 'difficult' negotiations can take place and still lead to (good) results. But why do negotiations go wrong? The three main issues that cause problems and thus endanger the efficiency of negotiations will be analysed here.<sup>3</sup>

Firstly, the environment in a negotiation situation, creating different levels of access to the problem for the different actors, may forestall their attempts to focus on the relevant issues. The negotiation itself already consists of many different details and the actors only have a limited processing ability. Together this might prevent the actors from identifying and gaining access to the necessary levels of a negotiation to unleash the opportunities available to them. If then the institutional framework does not (actively) support efficient negotiations, for example by providing the actors with the possibility to rely on external third parties for a process support, it is likely that negotiations fail or deliver inefficient results. This demonstrates the relevance of the interaction between the different stakeholders<sup>4</sup> for efficient negotiations.

Secondly, the actors may not be willing to calculate what the advantages of a negotiation for them are on the basis of a cost-benefit-analysis, or regarding the alternatives that they have. It seems as if actors often are not interested in creating value in negotiations, but rather in defending existing positions. Such a form of behaviour is not necessarily irrational, but one where calculations of short-term effects prevail. This demonstrates the importance of being able to create alternative options in negotiations.

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<sup>3</sup> Efficiency is here measured in terms of Pareto optimality and will be discussed in more detail below. See Buchanan, 1966, p. 32.

<sup>4</sup> The term 'stakeholders' is here used to refer to all the actors, i.e. individuals and institutions, that have an interest of some sort in the negotiation situation; most likely stakeholders are thus actively involved in the negotiation. In contrast to this definition the term 'environment' includes the stakeholders, but also those that do not actively take part in a negotiation situation.