

# MANAGING PARTNERSHIP RELATIONS WITH COMPANY'S EXTERNAL STAKEHOLDERS IN NEGOTIATIONS – PRINCIPLES & CASE STUDY

Andrzej KOZINA, Ewelina ZIOŁA-KOWALCZYK

**Abstract:** in the paper the issue of managing partnership relations with company's external stakeholders within negotiations process is discussed. The objective of the paper is to present author's original concept of the rules for establishing and maintaining such relationships. Firstly, the notions of negotiations and stakeholders are defined. Secondly, the problem of managing relations in negotiations is discussed. Thirdly, the principles for managing such relations are suggested. Fourthly, the case study on the application of those principles in particular small company is presented. Within recapitulation the synthesis of suggested concept is placed and the directions of further research on it are pointed out.

**Keywords:** (business) negotiations, organization's stakeholders, partnership relations within negotiations, the principles for managing partnership relations in negotiations.

## 1. Introduction

Effective management of relations (establishing and maintaining them) with company's stakeholders, especially external ones, is one of the important determinants of the effective performance of contemporary organizations. Such relationships are necessary in the negotiations for the implementation of various forms of exchanges and transactions with environmental partners, concerning sale of products, supply of resources, effective mergers and acquisitions and so on, in order to meet the mutual needs and requirements of the negotiating parties. As D. Ertel [1] rightly pointed out, "all contemporary companies operate in a complex network of connections that create a thread in the process of negotiations". Developing relationships through negotiations that fosters partnership cooperation, thus enables their parties to gain mutual benefits from their cooperation. Therefore proper identification and shaping of those relationships is one of the key tasks of both corporate executives and staff members. In order to manage such relationships properly it is necessary to gather and update all data on company's stakeholders.

Taking into consideration the growing importance of the discussed issue some remarkable works on it have been elaborated and published recently, including both foreign literature, e.g. [2, 3], and [4] as well as domestic one, for example [5, 6], and [7]. Despite that a substantial methodological gap within the discussed research field may be indicated. Namely, there is an urgent need for establishing the set of comprehensive rules for managing considered relationships. That's why the authors have made an attempt to fill this gap, at least partially.

Therefore the objective of the paper is to characterize the issue of partnership relations in negotiations, in particular to present the author's original concept of the principles of establishing and maintaining such relations between company and its external stakeholders. These principles are the most important among the numerous models, methods and rules on

how to conduct a negotiation process. Following such principles allows us to create the right atmosphere throughout this process, which is conducive to reaching an agreement that is beneficial to all parties.

The study is mostly of theoretical and methodological nature and constitutes a part of broader project focused on creating the model of managing relationships with external stakeholders. It should be also added that the publication was financed from the resources allocated to the Faculty of Public Economy and Administration, Cracow University of Economics, under the grant for the maintenance of the research potential.

## **2. The interpretations of basic notions**

At first it is essential to present a synthetic definitions of the two basic terms used in the paper. As far as the meaning of notion "negotiations" is concerned, business ones in particular, one may assume that they should be treated as a specific process, i.e. complex venture (project), including many activities of the parties interested in reaching agreement and resolving conflicts that may occur. Those activities interact with one another in many different ways. First of all negotiations constitute interactive decision making process. At the initial stage of that process the parties on them own formulate alternative solutions to the considered problems and specify criteria for the evaluation of alternatives, reflecting solely individual parties' goals and interests. Then all negotiators must adjust both alternatives and criteria to reach common ground at the level satisfactory for all sides. The decisional dimension of negotiations is the most important for the purpose of their analysis, organizing, and leading. The other important aspects of (business) negotiations are as follows:

- conflict resolution and search for an agreement, which creates:
- mutual dependence between parties,
- interpersonal communication process,
- mutual exchange of tangible and intangible values,
- new values creation [8, 9] and [10].

Negotiations within an enterprise include all kinds of issues that arise from its essence as a particular type of organization, both in the context of which it is the negotiating environment and in which it is a party to negotiations. They can be conducted either between internal interest groups, such as employers and employees, owners and managers etc., or by company representatives with its external stakeholders such as suppliers, customers, partners etc. Namely negotiations constitute a specific instrument for managing a company by shaping its relationships with the environment and creating internal conditions of cooperation.

As for the term "stakeholders", there are two ways to interpret it [11].

1. The wide one, according to which a stakeholder is anyone who can influence or be influenced by the organization, who is in any way involved in or interested in its performance. These are "groups or units that can influence or actually influence the organization" [12], which are "directly or indirectly interested in the organization's activities in pursuit of its goals" [13].
2. The second, narrow meaning of the considered notion is based on the assumption that company cannot meet the expectations and requirements of all its stakeholders, but should focus on achieving the limited objectives of their group, i.e. having a real impact on its performance and expected benefits. Different groups of interests have

distinct opportunities for influencing company's performance, thus can be both a serious threat to it and of no real importance to it.

Therefore, in the newer definitions of interest groups, not only their submission of claims to the company, but also the possibility of their execution is emphasized [14]. According to K. Obłój [15] "strategic partners meet two conditions: firstly, they have a stake in the company's performance, its decisions and their effects and secondly, they are able to exert effective pressure on the organization to satisfy their needs"

Stakeholders are usually divided into two groups:

- 1) internal ones (in company): owners (shareholders), supervisory board, managers, employees, trade unions and
- 2) external ones: investors and partners in different forms of cooperation, customers, competitors, financial institutions (banks, creditors), trade unions headquarters, state and local authorities, educational and social institutions, various pressure groups etc.

In the paper the stakeholders included in the second group will be considered.

### **3. The problem of managing relationships in negotiations**

In a broad sense, the relations of the negotiating parties, i.e. an organization and its external stakeholders (their representatives), can mean all kinds of interactions, couplings, links etc. between these parties. However, it is desirable to narrow our discussion to the matter of those specific relationships that are relevant to the attainment of the objectives of concrete, particular negotiations. These are mostly positive relationships, i.e. they are conducive to achieving mutual agreement. In practice, such relationships are developed and perpetuated by having a common, much experience from previous negotiations, which effects are judged by their parties as mutually beneficial. The relations may even have the nature of a partner relationship, and in a strategic dimension based on mutual trust [1, 16] and [17]. The presence of such relationships makes it much easier for representatives of the organization to take further negotiations with the partners with which they relate to.

In all sorts of business negotiations there is a significant problem - already discussed in the classical work [18] as a "process of forming relationships" - taking into account two kinds of issues: substantive ones (problems to be considered) related to a particular transaction and both present and future relationships with the partner. The weight we attach to good relationships changes the way people behave when they try to negotiate.

The main reasons for their importance of relations in negotiations are the expectation of future transactions of significant value, the hope for reciprocity, and the fact that good relationships give rise to mutual trust [16]. Each negotiation should therefore be seen from the point of view of both issues, which should be considered doubly, i.e. as related to each other and disconnected from one another [1]. In addition, it is required to assess the relevance of both issues from the point of view of organizational objectives of the aims of specific task, project, process etc., to which particular negotiations serve as a tool.

The dependence between negotiations and relations with the company's partners can be seen from two possible points of view.

1. Establishing and maintaining partnerships through negotiation. They are - as an independent variable - a tool for shaping relationships, which are dependent variables. This is a primary research question, more prominent in the study.
2. Determining the place and role of the partner relationship - as an independent variable - in the negotiation, as a dependent variable and the management of these

relations. This is a dual research problem that is of secondary importance in the following considerations [19].

It should be added that according to the above-distinguished groups and particular types of negotiating stakeholders, both organizational and intra-organizational relations should be considered. The subject of further consideration are the relationships of the first kind.

Mutual relationships between partners are important throughout the whole negotiation process. In the planning sub-process, they are a basis for analyzing the bargaining power of the parties and formulating their objectives and negotiation strategies. In the sub-process of negotiation conducting, shaping and developing the considered relations take place, both positive and negative. Finally, they are one of the important dimensions of the evaluation of negotiation process, especially while defining its assessment criteria.

The most general recommendations on how to establish the relationships in negotiations result from contemporary fundamental change in the role of negotiation in nowadays organizations in the context of rapid and substantial transformations in management in general. The organizations themselves change from hierarchical to network ones based on strategic partnership. They do not rely solely on positive attitudes, expressing in "being polite" to others, but they are aware of the quality of important relationships in entire cooperating network. No anonymous and rivalry, but more cooperative, strategic and social relations dominate. Transactions do not only involve exchanges but are directed towards creating and managing value chains. There are no immediate and opposite expectations and values, but the partners create common values and seek for long-term deals [20]. On the one hand, the conditions of competition in complex and dynamic business environment are increasingly difficult. On the other hand, there is a growing need for permanent, mutually beneficial and trust-based strategic relationships with suppliers, buyers, co-operators, subcontractors, investors etc.

#### **4. Suggested principles for managing partnership relations with stakeholders**

**Principle of reciprocity** - according to this principle, all partners respond favorably to the positive reactions and actions of other ones. They avoid negative moves, referring to the similarity of the situation in which they are together, according to the old saying "do not do to the other, which is not pleasant to you". They support each other in their actions, especially in difficult or crisis situations, especially in relationships with other stakeholders, to strengthen their bargaining power and credibility. For example such assistance is given by supporting offers, offering credits or loans, assuring guarantees, securing contracts, providing references etc. They see their roles more closely in mutual interaction, not only in the light of the narrow, detailed objectives of individual negotiations.

**Principle of balance** – this recommendation comprises two rules: **complementarity** and **separation**. Namely on the one hand, this principle means that two issues: solving problems and shaping mutual relations are beneficial for each other. Specific negotiations can and should be only a stage of long-term cooperation and/or strategic partnership. On the other hand, the considered rule means that those two issues in question should be treated in isolation, since the effective solution of one of them should not have a negative impact on the other. Therefore it is inadmissible to accept an adverse agreement for the price of maintaining a positive relationship with a partner, or to worsen good relationship by seeking to obtain ad hoc benefits at partner's cost.

**Principle of strategic orientation** (prospectiveness and continuity) - adopting this principle means that specific negotiations can and should be only a stage in the long-term

cooperation of negotiating parties or even strategic partnerships based on mutual trust. Therefore when setting the objectives of particular negotiations, it is important to look at the broader goals and intentions of the company and its vision and mission. It may happen that in a given negotiating situation, the organization does not achieve the desired benefits, especially the material ones, and even bears tangible losses. However, it relies on or develops a beneficial relationship with a partner that can bring significant benefits in the future, significantly outweighing that loss.

**Principle of selectivity** – it is also important to recommend that particular organization should not establish and develop positive relationships with all or majority of all companies or other institutions operating within its environment. In this case, the well-known method of stakeholder analysis is helpful in identifying which of external stakeholders are important to organization and with which as potential partners it must count. In addition, hastily setting too many and/or unrestricted relationships can expose the organization to dissipation of resources. On the other hand, the lack of good relationships with promising partners may cause losing interesting and potentially profitable chances. Therefore it is necessary to indicate properly the chances of establishing partnership relations with external stakeholders.

**Principle of credibility** - this rule is solely based on mutual trust of strategic partners effectively cooperating with one another. They do not commit false, unlawful or unethical actions against each other, or even do not use statements and opinions of that kind. They carefully avoid the so-called half-truths or selectivity in communication. They are entirely honest, truthful and predictable. They do not fail. They clearly know what they can expect from each other and they are not surprised in the negative sense of this word.

**Principle of openness and symmetry of information** - this recommendation means that there are no communication barriers between the negotiating partners. All relevant data flow freely and without limitation. The information exchanged is authentic, reliable (from proven sources), delivered in a timely manner and in the right amount and quality to the right recipients. Communication channels are sufficiently expensive. There are no delays, gaps, or falsifications of data. Partners are "well informed" and safe in the information dimension of their activities. Obeying the disused rule contributes to proper coordination of the activities of cooperating partners.

**Principle of flexibility** - next rule comes down to offering negotiating partners a wide range of attractive and beneficial options. They should be adequate to the conditions of operation and interaction, so that in the event of a possible failure to establish a favorable relationship with one partner, the possibility to win others could be created. To this end a sort of solid and comprehensive analysis of the negotiating situation in a broad context should be carried out, especially on the market context, which requires a substantial negotiating experience.

**Principle of support** - finally, it is very crucial to support each other's partners in establishing and maintaining good relationships with other stakeholders as potential co-operators, to create efficient network of collaborating organizations. There ought to be performed similar support activities as with the principle of reciprocity in order to gain through our existing partner new associates and even allies. Strategic partnership should have the character of a kind of "transitivity" through the mutual "attraction" of partners with the capacity to make cooperation, coalition, alliance formation, and good experience in this area. Trusted strategic partners are simply more attractive and credible to others within business environment.

## **5. Practical principles of forming partnerships with external stakeholders in Ewelina Ziola Beauty Gallery**

### **5.1. Profile of the Company**

The company being considered below, i.e. Ewelina Ziola Beauty Gallery (further called shortly The Company) constitutes a small enterprise from the cosmetics industry representing the category of beauty salons. Offer of the Company is divided into three basic branches of treatments: cosmetic, cosmetology and aesthetic medicine. The Company was founded in Zgorzelec in 2007 (western part of Poland). Initially, its market offer was limited to basic cosmetic treatments such as manicure, pedicure, henna, and basic skin care treatments, but with the acquisition of new competences by the owner and due to market requirements, the Company has significantly expanded the scope of its services.

The business premise being occupied by the Company is divided into different zones, ranging from cosmetic basics, eyelash and nail styling, through specialist surgery (podology) of foot care, to the cure room, where treatments of aesthetic medicine are performed.

Target group of the Company is defined by strategy of the local brand. The customers which the Company aims to reach had been selected according to results of proper marketing and economic research as well as local and global benchmarking. Customers of the Company are mainly the women (exceptions for men are very rare) living in the town of Zgorzelec. They are differentiated considering for example age or the financial and social status, but some of their needs, preferences and- of course- common area of residence, lead them to choose the considered Company.

Price policy of the Company was designed taking in to account internal and external factors like quality of services aimed or possible to offer and structure of the costs as well as price sensitivity of the customers and depth of the market.

The core of revenue stream is being generated by buyers of the aesthetic medicine, and advanced anti-aging treatments, but comprehensive offer of basic beauty treatments also states for the significant part of the Company's revenue. Moreover, wide range of the beauty services provided by the Company creates one of its basic value propositions: convenience of fulfilling need for various beauty services at the one trusted place.

### **5.2. External stakeholders of the Company**

The Company cannot assign equal priority to building relationships. One of the key steps in shaping its general strategy and in turn its negotiating strategy is to identify key stakeholders worth investing substantial resources. These stakeholders have a significant and multidimensional impact both on the current Company's revenue and on its reputation and long-term operation. The team that created its strategy selected the following groups of key external stakeholders: customers, suppliers as well as financial and state institutions.

**The clients** of the Company (its target group) are the main source not only of direct revenue but also of live advertising. They are very eager to share their opinions, both in direct contact and on the internet, boasting of the effectiveness of the treatments and quickly and openly sharing any dissatisfaction. According to the brand strategy, the target group of the Company are the clients, whose characteristics are based on market research and discernment of consumer behavior as well as the motivation of individual segments of the customers of cosmetology, cosmetology and aesthetic medicine\medical cosmetology.

The offer is directed to women aged 18-60, mainly living in the town of Zgorzelec and in the surrounding area, which combines some particular psychological and motivational features.

**The suppliers** are companies that provide the necessary materials and products needed for the operation of the Company. Among them, one can distinguish the suppliers to particular branches of the Company's activities from basic disposable materials, sterile, disinfectants and disinfectants. The suppliers are being selected by carrying out appropriate market analysis, taking into account their development, access to news, time of execution of orders, their credibility and possession of appropriate medical certifications.

**The financial and state institutions** - that is, primarily banks and leasing companies and state organizations - the most influential ones are City Hall and the District Labor Office.

### 5.3. Managing relationships with the external stakeholders of the Company

The most important rule for managing stakeholders is **the principle of strategic orientation** (prospectiveness and continuity), defines the strategy of the Company, determining how to establish and maintain appropriate relations with stakeholders, and by what channels and tools to communicate with them accordingly. Practical usage of principles of managing relations with the stakeholders described in this paper was characterized below according to particular groups of external stakeholders.

As far as the **clients** of the Company (its target group) are concerned, the following principles are the most important while managing relationships with these stakeholders:

- 1) **the principle of credibility** supports the honest and loyal actions of partners in relation to one another; in the case of customers, this means ensuring the transparency of the offer details, the appropriate price-quality ratio, the absolute safety of the procedures as well as the attractiveness of the Company itself and its image;
- 2) **the principle of openness and symmetry of information** of the Company is reflected by careful and appropriate selection and ongoing evaluation of information channels and communication tools with each of the previously described groups of stakeholders; the most demanding in terms of communication are the customers, concerning both intensity and creativity of presenting and exchanging information;
- 3) **the principle of reciprocity**, in relation to the external stakeholders of the Company, is most evident and significant in the case of the clients, caring for the right quality of communication and performed treatments as well as appropriate proposal beyond the value proposition of the Company, is rewarded with customer loyalty and their participation in marketing whispered as a specific ambassador of the local brand of the Company;
- 4) **the principle of flexibility** in relations with Company's clients shows, among other things, the practice of receiving regular clients outside the systematic opening hours of the salon, in exceptional situations, another example of business flexibility to customers is the variety of possible ways to communicate with the Company, in order to ask a question or make an appointment, one can visit the salon, make a telephone call, write an SMS message or contact the Company via social media.

Regarding **the suppliers** the relationships with them are managed using mainly the following principles:

- 1) **the principle of credibility** - it is important to maintain loyalty and regularity of orders, which translates into good prices, numerous promotions and the ability to

receive invoices with extended payment terms;

- 2) **the principle of openness and symmetry of information** - as far as the suppliers are concerned, it is important to provide them necessary information in due time and carefully form orders, it is also crucial to inform them about the shortcomings and deadlines in which to replenish the warehouse, in order to avoid delays and shortages of used materials;
- 3) **the principle of reciprocity** - the suppliers, by virtue of their proper care and loyalty to them, show particular care for the specific, individual and changing needs of the Company;
- 4) **the principle of flexibility** - the Company's flexibility in relations to suppliers is reflected by, among other things, the rapid execution of special orders, even when the supplier's margin does not make it attractive enough the Company to have it on a regular basis.

Finally, concerning **the financial institutions** the Company applies the following principles in order to manage relationships with those institutions:

- 1) **the principle of credibility** - loyalty to the bank and its advisors, resulting in easier financing of the Company and the use of various banking products are the main features of that relationship;
- 2) **the principle of openness and symmetry of information** - financial institutions should be well informed about any updates and possible changes to the Company's data regarding its range of activities;
- 3) **the principle of reciprocity** - financial institutions as a specific group of partners, which constitute the strategic backbone of the financing of further modernization and investment of the Company, as well as securing its economic liquidity, shall require, in accordance with the discussed principle, the fulfillment of transparent cooperation rules resulting from joint agreements as the effects of negotiations.

## 6. Conclusions

In summary, the characteristics of the principles of forming partnerships between the company and its external stakeholders, presented in this paper, may be useful tools for the identification and analysis of practical negotiation cases. The versatility and complexity of the adopted methodology makes it suitable for all kinds of negotiations undertaken in the company. When planning, conducting and evaluating negotiations, the suggested model concept should be adopted, adjusting it to the specific conditions of particular company and negotiations conducted within it or with its external partners.

On the other hand, with no doubt the proposed concept requires improvement (within further research), mainly in terms of enriching detailed tools for describing and analyzing partnerships in business negotiations. It will be necessary, in particular, to specify the characteristics of these relationships by identifying their specific characteristics and refining the rules of their formation. In addition, the target model of the considered relationships should be based on a solid theoretical foundation, mainly through the use of inter-organizational relationships theory, stakeholder analysis, and general concepts of strategic partnership in the economy. The empirical verification of the proposed concept is also included in the comparative studies of various types of negotiations in an enterprise.

## References

1. Ertel D.: Negocjacje jako źródło przewagi konkurencyjnej, [w:] Negocjacje i rozwiązywanie konfliktów. Harvard Business Review. Wydawnictwo Helion, Gliwice, 2005.
2. Bourne L.: Stakeholder Relationship Management: A Maturity Model for Organizational Implementation. Gower Publishing, New York, 2009.
3. Ford D.I.: Managing Business Relationships. John Wiley & Sons, New York, 2011.
4. O’Riordan L.: Managing Sustainable Stakeholder Relationships. Corporate Approaches to Responsible Management. Springer International Publishing, Berlin, 2017.
5. Tyszkiewicz R.: Zarządzanie relacjami z interesariuszami organizacji. Wydawnictwo Placet, Warszawa, 2017.
6. Koźmiński A.K., Latusek-Jurczak D. (red.): Relacje międzyorganizacyjne w naukach o zarządzaniu. Oficyna Wolters Kluwer Business, Warszawa, 2014.
7. Olesiński Z.: Zarządzanie relacjami międzyorganizacyjnymi. C.H. Beck, Warszawa, 2010.
8. Lewicki R.J., Saunders D.M., Barry B., Minton J.W.: Zasady negocjacji. Kompendium wiedzy dla trenerów i menedżerów. Dom Wydawniczy Rebis, Poznań, 2005, pp. 17-33.
9. Kozina A.: Planowanie negocjacji w przedsiębiorstwie. Wydawnictwo Uniwersytetu Ekonomicznego w Krakowie, Kraków, 2012, pp. 21-24.
10. Rządca R.: Negocjacje w interesach. Państwowe Wydawnictwo Ekonomiczne, Warszawa, 2003, pp. 23-47.
11. Freeman R.E., Reed D.J.: Stakeholders and Shareholders: A New Perspective on Corporate Governance. California Management Review”, vol. XXV, no. 2, 1983.
12. Freeman R.E.: Strategic Management: A Stakeholder Approach. Pitman, Boston, 1984, p. 21.
13. Stoner J., Freeman R.E., Gilbert D.R.: 1997, Kierowanie. Państwowe Wydawnictwo Ekonomiczne, Warszawa, 1997, p. 80.
14. Leksykon zarządzania. Difin, Warszawa, 2004, pp. 151-152.
15. Oblój K.: Strategia organizacji. W poszukiwaniu trwałej przewagi konkurencyjnej. Państwowe Wydawnictwo Ekonomiczne, Warszawa, 2007, p.217
16. Negocjacje. Harvard Business Essentials. MT Biznes Ltd., Konstancin-Jeziorna, 2005, pp. 162-173, p. 164.
17. Greenhalgh L.: Managing Strategic Relationships: The Key to Business Success. The Free Press, New York, 2001.
18. Walton R.E., McKersie R.B.: A Behavioral Theory of Labor Negotiations: An Analysis of a Social Interaction System. McGraw-Hill Book Company, New York, 1965, pp. 4-5.
19. Kozina A.: Kształtowanie relacji firmy z otoczeniem poprzez negocjacje gospodarcze, [w:] Wybrane problemy zarządzania relacjami w przedsiębiorstwie, A. Kozina (red.), Mfiles, Kraków, 2015.
20. Kahn R.L.: Organizational Theory, [in:] International Negotiation. Analysis, Approaches, Issues. A Publication of the Process of International Negotiations (PIN) Project, V.A. Kremenyuk (ed.). Jossey-Bass Publishers, San Francisco-Oxford, 2002.

Prof. UEK dr hab. Andrzej KOZINA  
Katedra Administracji Publicznej  
Uniwersytet Ekonomiczny w Krakowie  
31-510 Kraków, ul. Rakowicka 27  
tel.: 12-2935964  
e-mail: kozinaa@uek.krakow.pl

Mgr Ewelina ZIOŁA-KOWALCZYK  
Galerii Urody Ewelina Ziola  
59-900 Zgorzelec, ul. Iwaszkiewicza 29a/2  
tel.: 661111249  
e-mail: ewelcia24@wp.pl