

# Cross-cultural Negotiations

by

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## Abstract

This research discusses how buyer-supplier companies involved in cross border negotiations are influenced by their culture. Institutional theory is applied to study how negotiation processes comprising of different stages are influenced by the institutional environments of the participant parties. This paper employs an extensive qualitative case study approach involving semi-structured interviews from four cases. It reveals imperative understanding of how three dimensions of institutional theory: regulatory, normative, and cognitive influence pre negotiation, face to face negotiation, and post negotiation.

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# 1. Introduction

Introduction: This first chapter introduces the study and main concepts related to the research undertaken. It also provides an overview of critical issues involved in cross cultural negotiations which will be explored in greater length in the subsequent chapters. The justification for undertaking this research, application of theory, and potential contributions are explained. Research questions to be investigated and the significance of the study is also covered in this chapter. The main premise of this chapter is to provide the reader with an interesting overview of the study, its potential for development in the future research, as well as contribution to the field of international business negotiation.

Negotiation is a process of exchanging communication between two or more parties to reach a mutual outcome and resolve conflict (Ogliastri & Quintanilla, 2016). It is an activity that is not only practiced in the field of business but in almost every facet of life. For instance, family members negotiating their dual roles within work and family care (Wattis, et al., 2013) or an employee negotiating wages with an employer (Kuang & Moser, 2011) or even a country negotiating for peace agreements with neighbouring states to achieve conflict resolution (Pinfari, 2011). In today's, interdependent world and globalized economy, understanding cross-cultural issues are vital to understanding negotiation (Gelfand & Brett, 2004). The role of negotiation has become a fundamental process in running a successful business, as almost half of the total time invested in work by companies is on negotiations (Fraser & Zarkada-Fraser, 2002). In international

business, the context of business negotiations differs from other negotiations because the parties involved usually hold different cultural backgrounds. Research has identified that cultural differences have the tendency to influence not only the negotiating style, but also employee performance, and social structure, of all which ultimately contribute to the success or failure of international business negotiations (Uzo & Adigwe, 2016; Fang et al, 2008; Leung, 2005; Ghauri & Usunier, 2003; Tung & Paik, 1999; Graham, 1985; Gelfand & Brett, 2004). Furthermore, culture also impacts the psyche, communication and behaviour of negotiators and therefore ultimately influences the types of deals that are made (Salacuse, 1999).

Cross cultural negotiations are made more complex due to the cultural environment comprising of languages, ideologies, and customs Mintu-Wimsatt & Gassenheimer, 2000; Hoffmann, 2001; Gulbro & Herbig, 1996). It has been stated by Gulbro & Herbig (1996) that in cross culture, the chances of misunderstanding are great as members of one culture may concentrate on different aspects of the agreement (e.g. legal, financial) than members of another culture (i.e. relationship). The consequences of these misunderstanding are grave as over two-thirds of US-Japanese negotiation efforts turn into failure, despite the efforts of both sides seeking a successful business agreement. Ahammad et al., (2016) claim that negotiation and culture have received a large inventory of research and attention in social psychology and organizational behaviour, however, current understanding of how and when cross border negotiation is by

national cultural distance and cultural differences influence cross border negotiation is limited.

The application of institutional theory to international business has been increasingly applied to study multinational corporations and organizational behaviour, providing rich theoretical foundations for examining critical issues and multi-level analysis (Kostova, Roth, & Dacin, 2008; Dacin, Goodstein, & Scott, 2002; Djelic & Quack, 2003; Shenkar & von Glinow, 1994). For instance, the applicability of institutional theory for analyzing negotiations from institutional perspectives between the Chinese and India (Kumar & Worm, 2004), managerial action for the choice to become an entrepreneur (Busenitz, Gomez, & Spencer, 2000), and managers' ethical reasoning and behaviour (Cullen, Parboteeah, & Hogel, 2004). The institutional environment of a nation is a set of political, economic, social, and legal conventions that establish the foundational basis for production and exchange (Oxley, 1999; Sobel, 2002). Similarly, inter and intra-organizational environments of an MNC are characterized by institutional pillars of regulative, cognitive, and normative practices that are deemed acceptable (Kostova & Zaheer, 1999; Westney, 1993). Social institutions influence organizational characteristics within and between nations (Meyer & Rowan, 1977; Scott, 1995; Whitley, 1994). Thus, the institutional mosaic of society influences the behaviour of multinational organizations regarding investment in that region (Delios & Henisz, 2000).

Organizations have complex internal environments, with spatial, cultural, and organizational distance; language barriers, and conflict among the interest, values, and practices used in the various parts of the organization that precludes inter-organizational interactions with their subunits (Kostova, Roth, & Dacin, 2008). The influence on cultural elements explains the dynamics of international negotiation in trade and serve as a training tool for international traders (Hofstede, Jonker, & Verwaart, 2012). The cultural value of high versus low context communication is attached to information sharing in negotiation; and the cultural value of egalitarian versus hierarchy is about power in negotiation (Brett, 2000).

Scott (1995) notes institutions are transported in various carriers such as culture, structures, and routines which operate at multiple levels of jurisdiction comprised of world systems, societal, organizational field, organizational population, organization, and organizational subsystem. Institutional theory is concerned with deeper and more resilient aspects of social structure. It considers the processes by which structures including schemas, norms, rules, and routines, become established as authoritative guidelines for social behavior (Ken & Michael, 2004). More importantly, institutional theory is expected to offer a powerful explanation of both individual and organizational actions and processes (Dacin et al., 2002). Several authors, including North (1990) have categorized the institutional pillars into informal and formal institutional dimensions. For instance, formal institutions comprise of law, legal bodies, and regulations of a country (Salomon & Wu, 2012). The dimension of formal institution

corresponds with Scott's (2014) regulatory pillar of institution. On the other hand, informal institutions are related to values, customs, traditions, beliefs, and codes of conduct practiced in a country (Arslan & Larimo, 2010; Salomon & Wu, 2012; North, 1990). This informal dimension is related to elements of Scott's (2014) normative and cognitive pillars. For instance, Kostova & Roth (2002), Xu & Shenkar (2002), Yiu & Makino (2002) account differences in normative and cognitive institutions as informal institutions. In addition, informal institution as a whole is regarded as cultural institution by Salomon & Wu (2012).

These dimensions are useful for this research in categorizing the institutional pillars and understanding the significance of dimensions relevant for international business negotiations. For example, Peterson and Thomas (2007) explain that informal institutions of a country create expectations and shared understanding with respect to the behavior that can be anticipated within that country. Furthermore, informal institutions are of vital importance in studying the most significant differences between countries (Bruton, Ahlstrom, & Puky, 2009). At the same time business studies and political science scholars argue that informal institutions are much more difficult to conceptualize compared to formal institutions (Bernstein & Hannah, 2008; Goodliffe & Hawkins, 2006; Kostova, 1999; Luo & Deng, 2009). In addition, North (1990) explains that it is easier to understand formal rules which are created and governed by societies than the informal ways societies have structured human interaction. Therefore, informal



institutions comprising of normative and cognitive pillars are useful in understanding the behavior of negotiators from different cultures which is imperative to this research.

The purpose of this study is to theoretically develop a model from institutional pillars that influence cross-cultural negotiation process between Western and Saudi negotiators. The justification for exploring Saudi and Western companies is based on the fact that the clear majority of cross border negotiation studies thus far have focused on interaction between Americans and East Asians, thus raising the potential for intercultural research between Middle Eastern versus Western (Imai & Gelfand, 2010). In addition, there is vast amount of research available on institutional differences, as well as growing research interest in the negotiation area from an institutional perspective. However, there is hardly any research being undertaken which combines cultural dimensions and institutional theory to better understand the impact of culture on negotiation. Salacuse (2003) notes that negotiating dynamics are likely to be influenced by factors such as ideology, bureaucracy and the character of legal systems extant in an environment. It is therefore imperative to study institutional pillars and their influence in the context of face to face negotiation process between Western and Saudi firms. As Meyer (2001) notes, although institutional theory has been applied widely in the developed nations, there remains limited theoretical and empirical research on institutional frameworks in developing countries such as Saudi Arabia.

Sobral et al (2008) state that within an increasingly globally integrated economy, people of the world negotiate more frequently with each other than ever before. In many organizations, negotiations with partners from other regions which have formerly had no negotiating experience with current partners are now becoming a competitive necessity. In the context of intercultural negotiation, the complexity of the negotiation processes increases considerably (Sebenius, 2002). Elahee, Kirby, and Nasif (2002) state that there is insufficient understanding of exactly how culture affects negotiation behavior, although several researchers acknowledge that cross-cultural negotiations are significantly different from intra-cultural negotiations. Because of this, the emphasis on studying the effects of cross-cultural differences on negotiation style is growing, and cross-cultural negotiation processes and outcomes have become a source of both scholarly and practical interest for academics and multinational operations worldwide (Chang, 2002). Punnett et al (2006) reiterated that several scholars have argued convincingly that what works for managers in first-world countries will not work elsewhere, and that effective management practices need to be tailored to the local environment (Adler, 2002).

### **1.1 Expected Contribution of the Study**

This study has the potential to contribute to the cross-cultural negotiation body of knowledge in many ways. It draws a clear understanding of the negotiation context in cross cultural negotiation and justifies its distinctiveness compared to negotiations involving the same culture. Given the importance of cultural awareness, this research contributes towards the possibility of overcoming cultural challenges that may lead to

failure of negotiation deals. In particular, the imbalance in the importance given to certain cultural elements by the negotiators from different cultural backgrounds leads to complications in dealing is another endeavour of this research to draw attention to.

As highlighted in the cross cultural negotiation the differences in the style and behaviour of negotiators influence the negotiation at different level. It can, therefore, be argued that this research will advance the existing knowledge specifically related to the Saudi and UK negotiations. This could potentially contribute towards the limited literature from the Saudi negotiator perspective and also offer the required skills to the UK negotiators seeking to negotiate with Saudi counterparts. Moreover, the informal institutional constructs consisting of the customs, values and beliefs and their relation to negotiation process can be elucidated. The differences in established ways of negotiating to the taken for granted elements influence can be interpreted.

It is also hoped that this research will provide a rich understanding of regulatory influence that can impact the negotiation dealings between buyer and supplier. Abstracting from the legal complexities associated with country laws to the rules and regulations set by legal bodies as well as within companies that can impact the dealing process between both parties. This contributes to the understanding the fundamental legal issues relevant to the overall negotiation process to avoid negotiating companies facing any legal actions from the host country's government.

## **1.2 Justification of application of Institutional Theory**

The essence of this research lies in understanding the influence of culture mainly on overall negotiation process between Saudi buyers and UK suppliers. To understand how culture can influence the negotiation process between two dissimilar cultures is a challenging task. As this will involve studying various elements of culture from individual behavior to rules and regulations set by the country where negotiation takes place. It is not solely because non-cultural factors such as government policies, rules and regulations have important role to play for businesses involved in buying and selling, but also because they influence the interaction process between parties involved in negotiations. Institutions are human created set of systems consisting of formal rules (law, property rights, and constitutions) and informal constraints (traditions, customs, and code of conduct) that influence political, social, and economic interaction between individuals and their behavior (North, 1991). Often in cross cultural negotiations the impact of culture is obvious but there is also an implicit influence of the regulative aspect on negotiations. Hence negotiators are impeded with institutional differences which are comprised of cultural differences, the way things are done, and regulative aspects of rules and regulations. In addition, international negotiations are inevitably influenced by regulatory enforcements or legal systems, differences in culture, and ideologies (Kumar & Vern, 2011). Institutional theoretical framework encompasses such cultural, normative, and regulative dimensions which are imperative in understanding comprehensively their influence on the negotiation process. How exactly institutions matter on international businesses operating in a country with a diverse set of

institutional environments have been unclear to understand (Jackson and Deeg, 2008; Van Hoorn and Maseland, 2016).

Therefore, it is essential to study the influence of culture with a theoretical lens of institutional theory as it captures the impact in three dimensions. As suggested by many authors that institutional theory consists of diverse elements. One of the choices for using institutional theory has to do with its diverse elements that can be applied for studying the influence of culture on the negotiation process. Institutional theory constitutes of diversity of sources which can be found in societies 'all social systems exist in an institutional environment and they are multiple, enormously diverse, and variable over time' (Scott, 1987). Institutional theory not only comprises of cultural elements but also the regulative aspect which deals with legal, environmental, and regulation factors. Institutional theory is useful in conceptualizing and analysing how organisations involved in business activities are faced with institutional environment pressures (Phillips and Tracey, 2009; Zilber, 2012). By combining informal and formal institutions, the factors involved in influencing the individual behavior can be traced well (Stephan, Uhlener and Stride, 2015). Institutional theory is also well equipped to help individuals to solve societal issues by exploring them (Lok, 2019).

Moreover, as this research is inclined towards the philosophical stance of interpretivism paradigm, it aligns well theoretically and paradigmatically with cultural related studies (Zilber, 2012). Lok claims that institutional theorists mainly deals with research questions of where, how, and why organizational practices are changed and diffused, and highlights the exponential shift in its applicability in qualitative interpretive methods

and analysis in the past two decades (Lok, 2010, 2019). It can therefore be argued that the application of institutional theory can assist in answering the research objectives of this research in more comprehensiveness.

### **1.3 Institutional theory and Cross Cultural negotiation between Saudi and Western negotiators**

Informal institutions of institutional theory can capture the cross-cultural impact on negotiations between Saudi and Western negotiators in various streams. For instance, the normative component of institutional theory represents norms or conduct of doing things. In the context of negotiation normal practices can be regarded as exchange of contract, relationship building, way of negotiating between two parties. Hence with the help of normative element of institutional theory, cross cultural impact of negotiations between Saudi and Western negotiators can be captured. For example, the consequences of not practicing relationship building can have a negative impact on the deal. Moreover, the exchange of contract is regarded as an obligatory norm at the time of negotiation but which party has more influence to dictate terms and conditions, the frequency of exchange for amending details, and at which stage the contract can have influence on the deal between both parties are crucial to understand.

Similarly, cognitive cultural component of institutional theory are regarded as cultural elements such as taken for granted, tradition, values, and beliefs. Saudi Arabian culture is very different to the Western and this can have significant implications on the negotiation process. For example, western negotiators need to adapt to certain Saudi Arabian cultural values of when negotiating as they cannot be taken for granted and

can have serious repercussions. Religious values can be sensitive and can affect the dealing process of certain prohibited items.

Furthermore, formal institutions of institutional theory can be conceptualized as laws, rules and regulations set by the government that can impact Saudi and Western negotiators. Saudi food authorities, government agencies such as customs, and government agents can play an important role during negotiations with UK suppliers. For instance, Saudi Arabia practices Islamic Shariah law that influences almost every aspect of governance and stipulates business practices. Hence western negotiators need to be aware about the Saudi rules and regulations prior to the negotiations not only to secure the deal but also avoid any law violations which can lead to severe penalties.

#### **1.4 Institutional Theory and International Business Negotiation**

Institutional theory has been borrowed by different disciplines to study a wide range of topics. The link between institutional theory and negotiations came into existence long ago when trading took place, as negotiability and discounting depended on the creation of institutions that would permit their use in fairs and trade markets in the middle east because when individuals and organisations get involved in such negotiation activities are surrounded by institutional framework (North, 1991). Similarly, due to its versatility the formal and informal institutions can be aligned with the literature of international business negotiations.

Formal institutions indicate how firms and individuals involved in business activities are constrained by rules and regulations, the judicial system of law enforcement, and the system of government (Gaur, Delios and Singh, 2007). These regulative elements are applied on a different basis to different companies operating in host countries as multinationals get treated differently (Gaur and Lu, 2007). Moreover, contractual agreements are used as law binding agreements for certain negotiation deals, and can consist of enforcement elements associated with law and policies that also offers protection of goods from any threats and risks involved (North, 1991). The practice of corruption is increasingly used in the field of international business negotiations and corruption is ubiquitously known as unlawful. In the context of international business negotiations, external factors related to economic and political situation of the country can also affects the negotiation dealing between negotiators of dissimilar cultures.

Informal institutions comprise of normative, and cognitive cultural elements which mainly deal with cultural aspects. The normative component from the perspective of negotiations can be related to rules of the negotiation, norms practiced in international business negotiations, and style or behavior of the negotiators. The practice of relationship building and its importance have been researched by many authors. The use of the guanxi concept among Chinese negotiators, nepotism known as 'Waasta' among Arab negotiators. Such traits or qualities of negotiators practicing these norms can be linked to unethical negotiations. Moreover, the cognitive cultural element of institutional theory consisting of religious beliefs, values, and taken for granted cultural elements can also be aligned with international business negotiations.



## 1.5 Research Questions

Negotiation literature is littered with the role of culture in cross cultural negotiation. Numerous studies have concluded how negotiations are influenced by their national culture and affects the negotiation outcome. It is well agreed that negotiators involved in cross cultural negotiations hold different background, schemas, and norms. Thus the negotiation process is inevitably influenced by various cultural characteristics. This study deals with factors deriving from institutional theory influence the overall process of negotiation between Saudi and Western negotiators is influenced. The overall negotiation process comprises of three stages which are; pre-negotiation, face-to-face negotiation, and post-negotiation. All three stages of negotiation will be studied as how institutional environment influences Saudi and Western negotiators. However, more emphasis will be devoted to the face-to-face stage of negotiation, which can be regarded as most important stage of negotiation.

Q1: How can institutional environment influence the overall negotiation process between Saudi and Western negotiators?

The aim is to tackle how regulative factors of institutional environment such as Laws, rules and regulations of the host country affects the negotiation process in particular,

the face-to-face aspect of negotiation. Moreover, to investigate the influence of informal institutional elements on negotiation process which are normative and cognitive elements which mainly deals with culture.

- a. How do negotiators handle the regulatory factors influencing the negotiation process?

The above sub-research question endeavors to study the three aspects of negotiation by applying regulative elements of institutional theory. To be more precise, the impact that Saudi Arabian government laws, policies and regulations can have on the whole negotiation process; focusing primarily on the formal stage of negotiation and how Saudi and Western negotiators handle the issues that may arise during the face-to-face negotiation stage.

- b. To what extent can norms of negotiation such as ethics, behavior, and style of both parties affect the negotiation process?

The above question deals with how various cultural elements of Saudi and Western negotiators such as their habits, behavior, and style of negotiation affects the three stages of negotiation and particularly the face-to-face aspect of negotiation. For instance, the style and behavior of Saudi negotiators which might be dissimilar to their western counterparts can affect the negotiation process and vice versa.

- c. What is the role of 'taken for granted' cultural elements and how are these handled by negotiating parties?

This question is in relation to the cognitive cultural pillar of institutional theory which deals with additional cultural elements that are taken for granted. For example, the role of time, communication, and beliefs during negotiation process can have implications on the three stages of negotiation. Negotiators from the Saudi party may value the time in negotiation differently as opposed to their counterparts which may impact the face-to-face negotiation stage.

The following sections deals with the literature review on negotiations and the role of culture in influencing negotiations. In addition, a conceptual model is developed with the help of institutional theory, focusing on institutional environment to understand the influence of culture on negotiation. Following this section is the methodology. As Ghauri and Gronhaug (2005) explain the literature review is the combination of relevant and important parts of the research field that provides a meaningful overview of the topic being researched.

## 1.6 Significance of this Study

Saudi Arabia and the United Kingdom are close allies with strong historic relationship. The Kingdom is the UK's largest trading partner in the Middle East with more than 6,000 British companies exporting goods and services to Saudi Arabia. The UK exported £6 billion worth of goods and services to Saudi Arabia in 2018 and the British companies

present in the market include Shell, GlaxoSmithKline, BAE Systems, Rolls Royce and Unilever (Department of International Trade, Exporting to Saudi Arabia).

There are (Arab News, 2018) almost 200 joint ventures that are currently valued at £11.5 billion, including the British bank HSBC, Marks & Spencer and Jaguar Land Rover, and some 30,000 British nationals are living and working in Saudi Arabia as well as nearly 100,000 Saudi nationals living in the UK as per the Ministry of Foreign Affairs

The top UK exports to Saudi Arabia are mainly pharmaceutical products, medical equipment, transport related equipment, power generating machinery and equipment, foodstuffs and other consumables, general industrial machinery, professional and scientific instruments, road vehicles and parts. Saudi Arabia is the largest free economic market in the Middle East and North Africa (MENA) region. It is part of the Gulf Cooperation Council (GCC) and has free trade agreements with:

the European Free Trade Association (EFTA)

the Greater Arab Free Trade Area (GAFTA)

Singapore

The key business regions in Saudi are Riyadh, the Eastern Province (which includes Dammam, Al-Khobar, Dahrhan, Jubail and Hofuf), and Jeddah.

As the UK prepares for Brexit, strengthening strategic relationships with traditional allies has been government's top priority consistent with its strategy for 'Global Britain'. In parallel, Saudi Arabia is actively pursuing an ambitious transformation programme: 'Vision 2030', which seeks to transition the Kingdom to a more sustainable economic model on the backdrop of declining oil prices and a growing population. This suggests that opportunities for trade and investment are huge between the two countries. The Crown Prince of Saudi Arabia, Prince Mohammed Bin Salman visited the United Kingdom in March 2018 and met with PM Theresa May to discuss investment opportunities. The meeting resulted in an agreement of £65 billion of mutual trade and investment opportunities over the coming years, including direct investment in the UK and new Saudi public procurement with UK companies

Saudi Arabia is already a popular religious tourism destination and has a wide variety of historical sites, pristine beaches and shopping destinations, which do pose great potential for tourism purposes. As part of the Kingdom's 'Vision 2030 ', an estimated USD 7 billion has reportedly been earmarked for tourism initiatives. The tourism sector is viewed as one of the most promising industries for growth as part of Saudi Arabia's economic diversification plans over the coming years, including increasing the number of Umrah visitors to 30 million by 2030, as well as doubling the number of Saudi heritage sites registered with UNESCO, in a bid to develop non-religious tourism.

Despite the bold reforms by the Saudi Arabian government in opening the country up to foreign investment, these have been more directed towards promoting foreign and private portfolio investment as opposed to foreign direct investment (FDI).

Significant barriers remain for FDI, such as limits on foreign ownership and business activity in core sectors of the economy, increasing Saudization of jobs, a poor legal environment, alleged preferential treatment for domestic players in state procurement processes, the dominance of state-owned entities in core sectors, and the various cultural and religious bans in place.

For instance, all types of alcohol products, non-halal meat and gelatin derived from it are strictly prohibited due to the religious law of the country. Moreover, the marketing activities and commercial ads are screened for language and obscenity purposes and the supplier needs to be aware of various cultural and religious practices. A good example to demonstrate how culture and religious values can influence negotiations is when a Western salesman presented a potential Saudi Arabian client with a multimillion-dollar proposal in a pigskin binder, considered abhorrent and disrespectful in many Muslim cultures. He was swiftly removed from the meeting and his company blacklisted from working with Saudi businesses.

Given the distinctive and deeply rooted cultural tendencies that influence how people react, cross cultural negotiations play a crucial role in the context of trade and investment relationship. This research explores various factors which influence the cross-cultural negotiation process. The case study findings of this research involving

extensive interviews with Saudi importers and UK suppliers suggest that culture is a strong determinant in the negotiation process

## 2. Literature Review

**Introduction:** This chapter provides a thorough review of relevant literature pertaining to the main variables associated with the topic of this research. It begins with a broader context of negotiation and the different stages involved in the negotiation activity. The importance of cross cultural negotiations and the influence of culture affecting the parties involved during negotiations is reviewed. Following this, the factors involved in influencing the overall negotiation process from the perspective of the institutional theory are explained. The aim is to provide the reader with the deeper insights of cross cultural negotiations and to unfold the main elements towards the development of the conceptual model which follows.

### 2.1 Negotiation

Negotiation is an activity that can be practiced in almost every aspect of life by an individual of any background. As explained by Fisher and Ury (2012), negotiation is a fact of life since anyone can be regarded to be a negotiator. Many authors have described negotiation in different settings, for instance, Pruitt (1981) and Fisher et al (1991) describe negotiation as a form of decision making in which both parties aim to resolve their conflict. On the other hand, for Brett (2007) negotiation is regarded as an art and science of securing agreements between both parties who are aiming to maximize their profits. Furthermore, Maddux (1999) describes negotiation as ‘the



process we use to satisfy our needs when someone else controls what we want'. Ghauri and Usunier (2003) and Lewicki et al. (2010) draw a clear distinction by identifying negotiation and bargaining as different concepts which cannot be interchanged as they both serve different objectives. The former, also known as integrative negotiation, is more focused towards problem-solving between two parties and helps achieve a win-win situation for both. Bargaining is where resources are scarce and competition is high and is identified in win-lose situations. To achieve a successful outcome in negotiation, cooperation and communication are essential (Salacuse, 1992; Molnar & Molnar, 1999). Undoubtedly, negotiations are complex processes that occur in specific contexts (Lewicki et al., 2010; Brett, 2007). For example, in the context of international business, the role of negotiation is essential, where at least two or more parties are involved from different countries (Weiss, 1993).

Several authors attempted to define the negotiation but there is no single agreed definition. Since it depends on the situation, setting, and context in which negotiation is taking place and more importantly the objective. It has been argued negotiations can be practiced during a constrained situation, securing the deal and maximizing profit, or reaching a deal with mutual profit by problem-solving. For the purpose of this study, the negotiation concept is more inclined towards the integrative negotiation where parties opt to reach an agreement by problem-solving. Moreover as emphasized in the literature the use of negotiation for agreements by avoiding conflict, this research can extend this issue of what triggers conflicts during the negotiation process and how they are dealt. The most favourable outcome of negotiation can be regarded as both parties

have equally benefitted or even sacrificed their objective to achieve mutual gain because negotiation deals focused on a single-sided victory of a party may fail to establish long term privileges such as trust, relationship and partnership between both parties.

The international business negotiation process is divided into three phases: pre-negotiation or antecedent, face-to-face is also known as concurrent or decision-making, and post-negotiation or consequent stages (Ghauri & Usunier, 2003; McCall & Warrington, 1989; Graham, Mintu, & Rodger, 1994). In addition, factors such as culture, strategy, background, and atmosphere also influence the three stages of the negotiation process (Ghauri and Usunier, 2003). Face-to-face negotiations are inextricable in inter-organizational relationships such as joint ventures, mergers and acquisitions, licensing agreements, and even the exchange of products and services. Similarly, the factors of institutional environment encapsulate various cultural and other elements that not only impact the formal stage of negotiation but other two stages. Therefore by applying institutional constructs can help to identify factors and their impacts on the negotiation deal.

Based on the international business negotiation framework developed Ghauri and Usunier (1986) and Cavusgil and Ghauri (1990). The constructs of the institutional theory can be added to the variables of the atmosphere, background, culture, and overall negotiation process which comprises of pre, face-to-face, and post negotiation

stages. According to Ghauri (1996) background factors can be associated with the variables that are involved in influencing the negotiation process and each variable can influence different stage of the negotiation process. An example he provided of background factors is the environment variable which encapsulates the political, social, third party agents-also known as government officials, and structural factor. He explains the atmosphere as the 'milieu' which can be categorized as the level of cooperation or conflict during the negotiation. According to him, cultural factors are involved in every stage of international business negotiation. Moreover, some of the elements of cultural factors have been identified as time, behaviour, relationship building, and pattern of communication (Ghauri,1996).

From the constructs of the institutional theory which consists of regulatory, normative, and cognitive cultural. The regulatory construct comprises of legal, laws of the country, rules and regulations, and the government influence. On the other hand, the normative construct consists of cultural elements that are considered as a norm are practicing regular activities such as communication. Finally, the cognitive cultural element also deals with deeper cultural values, beliefs, and taken for granted elements, which are present in the society but considered as invincible.

The application of institutional constructs to the negotiation framework, in a nutshell, can be explained by linking the formal institutional construct of regulatory to the background factors of the negotiation framework. This is because the regulatory elements of government bodies or third party agents, rules and regulations, country laws, and political factors are enveloped in this construct.

Similarly, the normative construct of the institutional theory which consists of normal cultural factors for example; relationship building, the behaviour of negotiators which can be either positive or negative which can further be translated into ethical or unethical behaviour of the negotiators, and patterns of communication (Ghauri, 1996) or differences in established ways of doing things (Kumar and Worm, 2011), or the style of negotiators for example. These cultural elements from the perspective of normative construct can be added to the negotiation framework, which can be applied on any stage of the negotiation depending on the deal.

Lastly, the cultural cognitive construct consists of taken for granted cultural elements such as cultural system influenced by cultural differences such as trust, time, and religious values. It can therefore be argued that theoretical constructs of institutional align well with the negotiation framework. In the subsequent sections, the literature pertaining to relevant factors stated will be reviewed in greater length.

According to Reynolds et al., (2003) international business negotiations play a vital role in maintaining and creating corporate relations as many global companies rely on business negotiations for their growth and survival. Companies involved in international deals span cultural boundaries and encounter negotiators of different cultures and often face problems (Simintiras & Thomas, 1997). The variance in style and behaviour of negotiators is shaped by various factors such as economic, religious, political, and historical factors (Salacuse, 1999; Lytle et al., 1995). However, it is argued that culture has the tendency to not only influence the style of negotiation but the outcome of success or failure of negotiations (Paik & Tung, 1999). For example, cultural distance

impedes the progress of negotiation, often resulting in increased chances of failure in negotiation (Malik and Yazar, 2016).

The overall negotiation process is essential to study because it helps to understand comprehensively the influence of various factors involved in different stages of negotiation. While many authors have stressed the significance of the cultural impact on the outcome of the negotiation deal, however, it is noteworthy that non cultural factors can also have an equal crucial role in the outcome of a negotiation. Therefore, the regulative construct of institutional theory embodies regulatory factors associated with government, politics, rules and regulation, and other legal elements. Similarly, normative and cognitive cultural constructs cover cultural factors involved during the negotiation process. These vary from behaviour of the negotiator to the religious beliefs and taken for granted aspects that influence the negotiation. Moreover, these constructs play a vital role in understanding their influence on a certain stage as well as the overall negotiation process.

## **2.2 Cross cultural negotiation**

In today's world awareness of cross-cultural issues has become quintessential to understanding negotiation (Gelfand & Brett, 2004). Cross-cultural negotiations are relatively more complex as they comprise of cultural factors, environments, legal

systems, languages, labor laws, economic and political risks, and customs (Hurn, 2007; Hoffmann, 2001; Mintu-Wimsatt and Gassenheimer, 2000). This is further highlighted by an extensive body of literature which reveals that culture is one of the most significant factors in international business negotiations (Gulbro & Herbig, 1994; Hofstede, 2001; Ghauri and Usunier, 2003; Salacuse, 2005; Chang, 2003; Schein, 1997). However, it may be counter-argued that cultural aspects can be more of an obstacle than legal and economic factors (Gulbro and Herbig, 1995). In cross-cultural negotiations, parties are not only from dissimilar cultures but also have different schemas and patterns of thinking; this makes cultural awareness of opponents' culture and adaptation of negotiation style very important (Woo & Prud'homme, 1999).

The influence of culture in the negotiation literature has been overstressed for its significance. It is acknowledgeable that it has a constant connection when negotiating across different borders but some cultural elements need to be segregated into different categories to gain more for understanding their influence explicitly. Often legal, political, and economic factors have been categorised as cultural factors whereas these elements are distinctive to some extent. It can be argued that cultural aspects are not the most important factors for negotiations in certain cultures as some legal issues can also jeopardise the negotiation deal. Hence it is important to segregate such influencing factors into the theoretical constructs to better understand their influence on the negotiation process.

Each nation has its own style of negotiation (Hendon, et al., 1996), and what works in one country is not necessarily bound to work in another (Punnett et al., 2006). Furthermore, it has been stressed that the less familiar a negotiator is to their counterpart's culture the more difficult, prolonged, and frustrating the negotiation process becomes for them (McCall & Warrington, 1989). Cultural unawareness can lead to communication problems which are a common occurrence in cross-cultural negotiation between different parties (Farazmand et al., 2012; Adler & Graham, 1989). Insightful cross-cultural communication problems have been classified by Condon (1974) and are identified as language, values, nonverbal behavior, and patterns of thought. It has been asserted by Korobkin (2000) that good knowledge of cultural values, communication skills and understanding the context of negotiation will lead to a successful outcome.

The concept of ethnocentrism which is based on cultural differences is critical to understand for negotiators from dissimilar culture. The party involved in negotiation in a host country with entirely different cultural and political background need to be convinced to adapt to their counterpart's way of negotiating and realise the fact that what works in their home country will not be feasible in a host country. In order to understand such cultural differences, it is important to explore the cultural factors such as the role of time and trust which can influence the formal negotiation duration and the outcome.

There is an abundance of literature focusing on the influence of culture on international business negotiations (Ghauri & Fang, 2001; Graham & Mark, 2003; Gulbro & Herbig,

1996; Lewicki et al., 2010; Pye, 1982). One of the important factors influencing the negotiation are cultural differences. In business negotiations between the Americans and Japanese, it was found that building relationships allows smooth flow of information during negotiation between both parties to achieve a successful outcome (Graham, 1985). For instance, Americans are too time conscious and want to focus more on completing the deal instead of building relationships, which are considered of greater importance in Japanese culture (Van Zandt, 1970), Japanese negotiators determine the outcome of negotiations by studying the behavior of their opponents (Graham, 1983). Like Americans, the Japanese also use an aggressive style in negotiation; however, they are more silent during the formal negotiation (Graham, 1985). Additionally, Graham (1994), in his study about negotiating in ten foreign cultures deduced that variation in the style and behavior of negotiations is inherently influenced by cultural differences.

In a seminal study about Chinese negotiation done by Graham and Lam (2003), they explain how different the Chinese negotiating style is and how it is influenced by their cultural threads: agrarianism, morality, pictographic language, and wariness of foreigners. They stress negotiating with the Chinese is a daunting task for Americans due to the complicated and unpredictable Chinese negotiation style, and if Americans don't familiarize themselves with Chinese cultural threads then negotiation is likely to fail (Graham & Lam, 2003). The identified negotiation styles of the Chinese include: questioning when making the deal, building trust and relationship is quintessential,



haggling culture until concessions are made, and an indirect style of information sharing. In the same stream of negotiation style, Ghauri and Fang (2001) have presented a similar overview about Chinese negotiation style being influenced by Chinese Confucianism, in which they presented stratagems.

The concept of relationship building has received a great deal of attention in business negotiation literature. Indeed it is one of the early noticed signs between negotiating parties as it can indicate the compatibility of working together for a longer period. It has become a norm in international business negotiations to practice relationship building as it has many advantages. Moreover, the style of negotiators is embedded in their cultural background as it varies between different culture. For instance, negotiators from a certain cultural background are lenient and others are serious during the dealing process. The normative and cultural cognitive constructs of the institutional theory which mainly signify rules of the game or normal practice, and taken for granted cultural elements can be related to this explanation. Therefore in this research cultural elements will be studied under normative and cognitive cultural constructs of the institutional theory. It is worth mentioning that significance of relationship building for negotiations can be based on the category, size, and frequency of deal. For instance, in certain negotiations that involve one time negotiation deal related to specialized product or service may not exaggerate the importance of relationship building.

It has been highlighted that institutional theoretical constructs can accommodate factors related to cultural, legal, and other cultural norms widely practiced during the

negotiation process. In the following section literature relevant to these elements is reviewed and discussed.

### **2.3 Environmental factors in negotiation**

There are many legal factors that influence the negotiation. In a framework of international business negotiation, Ghauri and Usunier (2003) discuss the significance of environment and third parties involved in background factors of their model. Environment comprises of social, political and structural factors relevant to both parties. On the other hand, third parties in negotiations are often governments which mainly deal with infrastructure, foreign exchange, and labor rules. The use of third parties or agents is required when unique knowledge, building special connection with people, and valuable information is needed for negotiation purposes such as dealing with law and legal issues that may arise during negotiation (Lewicki et al, 2010).

In a study by Mattos et al., (2002) the importance of environmental factors for local and foreign partners to form alliance in international business negotiations has been outlined. It is vital for international business managers to amplify their perceptions regarding environment and adapt policies and strategies in different countries. They have stressed that when negotiating in other countries it is highly important to acquire knowledge about politics, customs, and the local economy with the help of partners, as

well as to build strong networks with government officials. This includes meeting government people to gain political advantage and at the same time to understand fully the implications of governmental legal requirements within the country. In addition, they have argued that governments have the tendency to influence the negotiation process by introducing regulations such as tariffs and use of certain technologies which may result as a trade barrier.

Moreover, Blodgett (1991) found that in many cases between foreign and local businesses, governments tend to impose more restrictions to give an advantage to local businesses when negotiating with their foreign partners. Fang et al, (2008) in their paper about success and failure factors in business they claim that changing environment factors such as institutional legalities have an impact on the success and failure outcome of international business negotiations. In addition, the significance of environmental factors has been further stressed by Tung (1988) in which the influence of environmental factors on negotiation context, negotiation result, and negotiation tactics has been explained.

Environmental factors are complex and cannot be just identified as economic, political, and legal elements. It may be argued that in the same way that cultures vary, environmental factors may also vary from region to region where business activities take place. It is important to examine which environmental factors affect and influence different stages of negotiation between Saudi and Western negotiations. This could

also mean the hostile environment of a country where negotiating parties are constrained with external factors pertaining to economic and political stability of the country could result in temporary mar. For instance, foreign companies feel welcomed when entering a new market and find easy to adapt and operate in a host country's environment. Therefore, the influence of environmental factors involved in negotiations between Saudi buyers and UK suppliers can provide useful insights. Hence the environmental factors of regulatory construct are able to influence different stages or an overall negotiation process. For instance, due to political environment the government can impose embargo or a moratorium for certain products from a country which could affect the pre negotiation stage in case the deal has not commenced, otherwise whatever stage the deal is at can be influenced with such a legal factor.

#### **2.4 Government and Policies influencing negotiation**

In the past few decades emerging economies such as fast-growing nations and firms have drastically evolved. The idea of global investments seems lucrative to these players for multiple reasons; increased revenue, market share, foreign investments and internationalization are limited factors. Moreover, the expansion of these emerging economies introduces the concepts of alliance, acquisitions and ventures (Hitt, Franklin and Zhu, 2006). With the aforementioned in context, the regulatory aspect becomes of special interest for the negotiators. Regulations exist in order to allow firms to become

compliant or meet the rules set out in compliance legitimacy sheet. Essentially, there exist two types of regulatory environments; less restrictive and more restrictive (Ang and Michailova, 2008). In the former case, the authority concerning policies is sheltered by the government. The aim in this scenario is to minimise the corruption and to never let the 'rule of law' be compromised by anyone. On the contrary, the latter case – more restrictive regulatory environment – the situation is relatively more relaxed and room for deficiencies exist. Michailova et al. (2008) have conducted a multi-national study of 628 alliances that are emerging economies across numerous industries between 1995-2004. Amongst their findings was that when business dealings takes place in a country which is part of emerging economy then it is more likely to be dominated by the regulatory influence. However, it can be challenged that this may not be the case in certain emerging economies due to many social, political, and economic factors.

Form the above literature, the significance of regulatory influence can be highlighted. It can be useful for this research to identify the Saudi Arabian level of restrictive environment and how such legal restriction can affect the negotiation process. For example, it can be argued that the conservative Saudi Arabian 'Shariah' law can have strict rules and regulation for combatting corruption cases. As a result of this, the negotiators are likely not to be involved in corruption-related practices in pre and face-to-face negotiations where favours are more likely to be exchanged.

International business negotiation involves negotiating in different regions and the relation between the negotiators from corporations and the host government is very

crucial (Kapoor, 1970) as some countries have strict laws and regulations that may affect the negotiation process for businesses. It has been reported by Salacuse (2010) that by entering the international business arena, companies face many laws and political systems, and without any doubt governments are directly involved as partners, suppliers, and financiers in international business negotiations. Furthermore, he argues that dealing with governments in negotiation is challenging and different as governments hold special powers, privileges, and immunities that they can practice. Indeed, government can influence and impact the negotiation process (Salacuse, 2008).

It not feasible for the UK suppliers to have established a relationship with the host country's government. The only relation with the government can be regarded as the compliance relation as parties involved during the process of negotiation need to comply with the government rules and regulations. However, in different category negotiation where the government is involved in dealing with special deals relating to peace, trade, resources with other country's government or big corporations can have chances of relations. The rules and regulations are vital for this study as they can affect the pre-negotiation stage where the suppliers need to familiarize and register with government bodies before the deal is moved forward to the formal stage. Government do have exclusive powers to practice, in this case, it can be regarded as the imposing fines on parties involved in import or export in case either party breach the country law at the time of post negotiation.

A case in point being the Chinese auto industry which was subject to government established policies that meant technological companies had to meet a strict criterion; which meant they had to be environmentally friendly and energy efficient. These government policies affected the negotiation outcome of foreign companies (Sigurdson, 2004; Sigurdson & Jiang, 2005). In Western-Chinese business negotiation, the negotiating enterprise is not the only party involved as many government bodies and bureaucratic machinery which participates in the negotiation process directly or indirectly influence the outcome (Shi, 2001). Wade-Benzoni et al., (2002) in their paper about institutions and negotiations, provide an example for environmental pollution. Where a country imposes stricter and rigorous rules and standards which will allow less pollution but will increase the economic burden on complying industries. On the other hand, industries negotiate for the lowest standard to maintain low costs.

The government can certainly impose such laws on specialized industries which require extra measures such as manufacturing, agriculture, construction or other sectors. Such influence of government is important to understand for this study as it deals with a case related to water treatment. Hence, at which stage the government rules and regulation matter critically and the certification required before the initiation of negotiation deal.

Moreover, governments are also involved in bilateral negotiation in free trade agreements. It has been argued by Postigo (2016), that government business relations are enhanced with the help of bilateral free trade agreements negotiations when two governments seek their interest and benefits. For example, Thailand approached Bahrain and Peru given their small economies for free trade agreements, but

negotiations didn't proceed and were suspended. In addition, Japan and Korea signed bilateral free trade agreements for their agricultural sectors (Pekkanen et al., 2007). It is noted that the government's position is determined by the relations between the nature of counterpart's government (Postigo, 2016).

This to some extent can help during the process of negotiation countries of buyer-supplier have strong bilateral relations. As this can create investment and trade opportunities in both countries as well as the ease of doing business. However, diplomatic ties also matter as any change in a country's foreign policy can impact the negotiation deal. This includes the diplomatic feud, war, country boycott for trade and travel, expatriate repatriation and other factors of such nature.

It can be argued that a country's government, policies and regulations can have a direct or indirect impact on the foreign companies that seek to do business. Moreover, governments to a certain degree may exert an influence that can affect the process of negotiation. Particularly, rules and regulations set by the government can tremendously impact negotiators involved in buying and selling sector, which is the focus of business activity between Saudi importers and UK exporters. Hence, it is imperative to examine the influence of the government on Saudi and Western negotiations in Saudi Arabia from the regulatory construct of institutional theory.



## **2.5 Contracts in negotiation**

One of the prominent practices involved during negotiations is the exchange of contracts. Salacuse (1998) states that for North American lawyers and business men contracts are at the forefront of negotiations as they set out the rights and duties for both parties and control their behavior in the future in the event of a conflict. It is also believed that contract negotiation can help parties to become aware of each other (Ghauri, 1983). It is reported by Bottom et al., (2006) that forming a clear contract may provide assurance for achieving the negotiation goals more effectively. In an important paper titled 'Use of written contracts in long lasting business relationship' by Roxenhall and Ghauri (2004), they have argued that while people involved in business dealings find contracts important some deals end without the use of any contracts and that contracts serve other uses for parties involved in business negotiations. They concluded that there are three reasons for the use of contracts; such communication tool; negotiators use contracts to avoid conflicts and uncertainties, and lastly because it is perceived that drawing contracts in negotiations is perceived as a normal thing to do. The greater the business deal is and the less understanding between parties involved in negotiation, then the stronger the contract tends to be for the deal. In addition, contract negotiation can be analyzed based on the offer, discussion, adjustment, preparation, and the final negotiation stage (Roxenhall and Ghauri, 2004).

Similar to how negotiators from certain culture value the use of contracts, for the purpose of this study it is important to investigate whether the contract is valued during the buyer-supplier negotiation process. In addition, which stage of the negotiation the use of contracts are regarded as critical. For example, the contracts are exchanged during the face-to-face negotiation stage or the final stage of post negotiation will help to understand and identify the crucial stage of negotiation.

Contracts are used to set an agreement based on an understanding between two or more parties with a defined set of exchanges or promises (Mallor, 2013). In most cases the voluntary agreement of having a contract in place entails an open-endedness in discussion and future negotiations. Scholars in the field have identified a concept known as integrative negotiation as the building block of a promising contract in negotiation (Tomlinson and Lewicki, 2015). Integrative negotiation is when all parties involved in the contractual formalities have an agenda of attaining mutual gains. Furthermore, the aforementioned authors outline a structured methodology of the contracting process. These included maximising the potential of reaching an understanding, the method of reaching this agreement in order to attain the objective, the method of maintaining the agreement and the method of enhancing further agreements based on the previous contracts.

It can be argued that the use of a contract is determined by the parties involved in a negotiation deal. In a case where both parties have longstanding business relations

established, then the value of contract diminishes. This is because both parties have a sound understanding and may use a contract just as a formality with giving it much attention or in rare cases contracts might not be even involved to speed up the buying process. Therefore, for the purpose of this study importance of exchanging contracts despite the established trust between both parties will be assessed. A complicated long contract can serve as a hinderance during the negotiation and lead to more negative outcome.

Maximising the chances of attaining an agreement involves integrative negotiation, which is further divided into five different stages (Coleman, Deutsch and Marcus, 2014). The first stage is preparation; where conceptual ideas are generated to enable the negotiator in planning and implementing an agreement. This usually highlights the interests which encompasses all the relevant needs. Bad examples of the preparations are when the focus shifts towards the position of the counterparts instead of the interests. This, in a way, restricts the flexibility of an agreement is setting out be one which to be long lasting. Taking into account the best alternative to a negotiated agreement (BATNA) is also another tool that can be adopted in the preparation stage of integrated negotiation. BATNA has proven to be a maximiser of the likelihood to strike an agreement (Pinkley, 1995). The second stage is building a relationship with the counterpart. It is not uncommon for both negotiators to consider each other as opponents, however, when integrative negotiation in incorporated, the negotiators are forced to see each other as team members, striving to achieve the same goal. The third

stage is when information is exchanged in order to understand the interests and issues of each party. This usually takes place in the form of a formal discussion with all the viable options on the table. Moreover, certain initial rules can also be set to avoid digression from the agenda and set milestones. The fourth stage involves invention and exploration of different avenues. This could be due to any differences in opinion that may have occurred. In addition, thanks to the flexibility in the negotiation process, the agreements can be manipulated. Lastly, the fifth stage is to reach a contractual agreement.

Contrary to the above process which involves the exchange of contract in the final stage of the negotiation process. It is very likely in cross-cultural negotiation the contracts are exchanged in the pre-negotiation stage and as the negotiation continue the contracts are referred for amending terms and conditions accordingly. Therefore, it can be argued that integrative negotiation involves both parties to negotiate cooperatively but not necessarily involves the use of contract in the concluding stage of negotiation. Hence, the frequency of exchange of contracts between buyer-supplier negotiations and understanding the reasons for amendments of contractual terms and conditions can add value to understanding contract negotiations.

Marsnik and Thompson (2013) claim that contract laws are not only vital for business or environmental disciplines; rather, understanding contracts and contract negotiations are an essential life skill as exemplified in their study on the purchase and sale of large

quantity of lithium by an electronics company for manufacturing audio players (Marsnik and Thompson, 2013). In negotiation, contracts are altered to the specific needs of both parties. In the regulatory domain, the use of contracts is categorized as behavior contingent contracts and outcome contingent contracts (Fassina, 2004). In the former the party is paid according to how they behave in the role and in the latter, the party is paid based on the results and the outcome achieved.

Contracts can be regarded as a mandatory practice during the negotiation process. However, the use of contract is not limited to the payment aspect but also serves other roles. A contract can act as legally binding document and refer to in case a party breaches the terms and condition. In buyer-supplier negotiations, the cases of late delivery and payments are frequently practiced and this can influence the post negotiation stage.

Salacuse (2010) argues that contracts in negotiation are important but not the entirety of the deal. He concludes that negotiators from certain cultures value relationships more than contracts and vice versa. He asserts that in many occasions in international business negotiation once the contracts are signed they are left behind and more emphasis is put on building relationship. Furthermore, Macaulay (1963) found that in most business dealings contracts are avoided and notes that sales people find it annoying and good relations between parties is a reason why contracts are not needed.

There seems to be opposing views by the authors concerning the use of contracts in negotiation. On the one hand, it is argued the using contracts is one of the frequent practices in negotiations, and serves as a legal entity for avoiding future conflicts and offers many advantages. For example, Salacuse (1988) suggests that negotiators facing unstable circumstances should include clauses in their contracts that may allow easy cancellation of deal and neutral arbitration. On the other, hand it has been argued that contracts are regarded as something unnecessary and time-consuming. Therefore, it is important to investigate the use of contracts in cross cultural negotiation that take place between Saudi and Western negotiators. It is vital to understand the use and nonuse of contracts for this research.

However, it can be deduced that contracts play an instrumental role in the smooth flow of negotiations and are considered as a norm in negotiations. Therefore, from the perspective of institutional theory, contracts fit in the normative construct as it signifies the basic practice of a negotiation activity. This necessitates investigating the influence of contracts under the normative construct on negotiations between Saudi and UK negotiators. Particularly, during which stage of negotiation process contracting is initiated, or if contracts are involved in every stage of negotiation.

## **2.6 Ethics in Negotiation**

According to Lewicki et al., (2010, p. 254), ethics have been defined as “applied social standards for what is right or wrong in a particular situation”. The topic of ethics in negotiation has received an increasing amount of attention in recent years. They have identified four categories that can be applied for ethical reasoning to negotiate such as end-result ethics, duty ethics, social contract ethics, and personalistic ethics. The most relevant to negotiators are duty ethics and personalistic ethics. Some of the elements of these ethics which can be applied in negotiations are moral principles such as honesty, truth and other elements. On the other hand, some of the unethical characteristics of negotiators have been identified as corrupt or immoral practices, or even negotiators bluffing and not meeting the timescale (Lewicki et al., 2010). It has been reported by Alkhatib et al., (2005) that the negotiation process is plagued with ethical dilemmas and some of the unethical over exaggeration, false promises, mispresenting position, and attacking the network of opponents have been stated.

Although many unethical practices have been highlighted in the negotiation literature, which stage of the negotiation process such elements are involved and how they affect the negotiation outcome is unclear. Therefore, relevant to this study is the understanding of how supplier’s unfulfilling promise of not meeting time frame is handled by the buyers in post negotiation. In addition, immoral behaviour comprising of bluffs, over-exaggeration, and dishonesty during face-to-face negotiation can be regarded as a norm in buyer-supplier dealings which needs to be analysed in this study.

In certain cases, the use of bribery is made to achieve the opponent's information (Lewicki and Robinson, 1998). For instance, in their study about oil and gas negotiation, interviewees disclosed the presence of unethical misbehavior by the negotiators involved. Some of the examples given by them were the cases of bribery, a politician demanding contribution to his personal assets, and claimed that corruption can be frequent practice in oil and gas negotiations (Nordin et al., 2014). The use of dishonesty and deceptions are widespread in negotiation and the fact that negotiators who deliberately deceive for the sake of achieving their own advantage will generally be doing unethical activities (Provis, 2000).

Another example is the ethics involved in Chinese negotiations, where Western negotiators perceive their ethical norms to be universally applicable, and practice direct querying consumers and suppliers and expect honest answers from their Chinese counterparts, which may result in problems (Sebenius and Qian, 2008). Ethics in business are known to be culture specific because what is considered normative in one culture may be perceived as unethical in another (Izraeli, 1997). Some examples of unethical tactics practiced by parties to maximize their outcomes are false promises, excessive exaggeration of demands to achieve the deal, and secret information sharing (Lewicki and Robinson, 1998).



There are certainly ethical differences in cross-cultural negotiations. In certain cultures, frequent questioning with the parties involved in negotiation is regarded as a normal practice whereas in other cultures it can be perceived as an unethical norm. The Arab negotiators in most negotiation deals tend to complete the transaction process without any delay. Hence in this study, suppliers prolonging the formal stage of negotiation by questioning their buyers repeatedly and comparing prices with other potential buyers can lead be regarded as an unethical practice and lead to a negative negotiation outcome.

In Arab culture, the perception about ethical practices are derived from Islamic teachings that not only are meant to influence business negotiations positively but every aspect of business practice. For instance, practice of dishonesty during trading, and false promises are forbidden. Rice (1999) concluded three relevant business practices; fairness in contract negotiation, truthfulness and directness in negotiation, and fulfilling obligations and trust in business relationships. These can be related to normative elements as the habits, morals, ethics and work roles mentioned earlier. These will be further investigated within the context of ethical and unethical qualities of negotiators involved in Saudi and the UK negotiations.

The drive towards more research in international business management and negotiations is partially escalated due to several historic business scandals. These scandals include, but are not limited to, deception in negotiation, lying, unethical

behaviour and non-disclosure. Many scholars both from faculties of behavioural science and business management have made attempts to study the causes, intent and effect. It is argued by many that in some scenarios the intention of displaying unethical behaviour is absent. Moreover, the implications of unethical behaviour that is being displayed goes against the very same values that are instilled in these individuals. With this context in mind, in literature, this has been defined as a concept known as ethical fading. Work on identifying why ethical fading arises in a negotiation process across borders in business has been carried out by scholars in literature (Rees, Tenbrunsel and Bazerman, 2019). Similarly, in many scenarios there is a clear intent of acting or doing business without any ethics, also known as assumed intentionality.

There have been numerous frameworks and models developed in order to better understand the concept of ethical fading (Tenbrunsel and Messick, 2004; Tenbrunsel et al., 2011; Zhang, Liu and Liu, 2015). For simplicity, Tenbrunsel et al. (2011) have suggested a model which essentially describes the three distinct phases of ethical fading. The initial stage is what is known as the 'prediction phase', which occurs prior to the decision-making step. In the middle, sits the 'action phase' which is occurs while the decision-making step is on-going. Lastly, the final phase is the 'recollection phase' which takes place after decision-making step. These phases go hand in hand with the negotiation strategy which involves the pre-negotiation, formal negotiation and post-negotiation stages. It is highlighted that the phenomenon of ethical fading builds up in the 'action phase' (Rees, Tenbrunsel and Bazerman, 2019). The argument by the

aforementioned authors' claims that a more holistic approach involving elements of human behaviour plays a vital role. For example, framing is considered to come into play when negotiators prioritise certain factors, or in business terminology 'cues', over ethics.

There are countless negotiation cues which eventually lead to ethical fading. It can be argued that most of these cues are linked closely to monetary gains. For example, there are several arguments found in the literature to claim that high-stakes incentives tend to lead to ethical fading within a negotiator's mindset (Tenbrunsel and Messick, 2004). Moreover, it can be said that, based on social-cognitive model tests (Aquino et al., 2009), the influence of selfish interests overcome the interests of counterparts'. Another negotiation cue to factor in within the concept of ethical fading is the economical or financial losses. With the urge to seek higher profits, comes a greater risk. Thus, this usually enables the negotiators to adopt an unethical behaviour – thereby leading to ethical fading, albeit unwittingly (Gino and Margolis, 2011). Similarly, competition is another factor which often results in ethical fading. It is emphasized by numerous scholars that when competing against counterparts in business, the main objective becomes that of self-interest and doing whatever it takes to achieve those goals, even if ethical values have to be compromised (Rees, Tenbrunsel and Bazerman, 2019).

Deception is considered as one of the most immoral traits in business dealings. The act of deception in most cases breaks the deal, as well as the established relationship and trust between the parties involved. In the context of negotiation, more specifically in cross-cultural negotiations, deception can bring about detrimental outcomes. However, to detect deception before or during the negotiation phase, it is important to identify first the dimensions attached; for example, the forms and characteristics deceptive negotiations.

Scholars have in the past attempted to define and model deception rigorously. Deception has been defined as something immoral and undesirable which takes many forms (Treviño, den Nieuwenboer and Kish-Gephart, 2014). Nevertheless, build-up of trust – especially in a cross-cultural negotiation scenario, immensely diminishes the chances of experiencing deception (Zhang, Liu and Liu, 2015). In an attempt to classify deception from its numerous forms, a deception consequence model has been proposed to highlight the varied consequences of deception (Gaspar, Methasani and Schweitzer, 2019).

There are multiple forms in which ethics can influence the negotiations. While of much of literature pertaining to ethics involved in negotiations has been dedicated to unethical practices of negotiators. Focus on ethics in negotiations can be based on positive ethical negotiations as well, which means negotiations practicing ethics by neglecting unethical forms involved in negotiations. Moreover, it is essential to understand how

negotiators handle such unethical actions when faced by their counterparts, during which stage it is practiced, and what are the consequences of such practices involved between buyer and supplier negotiations.

## **2.7 Style of Negotiators**

Tung and Paik (1999) conducted interviews with executives of twelve US companies involved in international business negotiations with China, Korea, and Japan. They concluded that cultural awareness, patience, and relationship building were key factors towards success in the negotiation process. On the other hand, factors resulting in failure were lack of personal relationships as Americans were found often meeting to finalize deals at the earliest possibility whereas East Asians would meet primarily to establish personal relationships. However, differences in negotiation style and loyalty were served as insincere and devious by Koreans and Americans respectively. In addition, it was revealed that the lack of cultural awareness led the Japanese to be annoyed due to their self-perceived national pride and cultural superiority, believing their Western counterparts to be ignorant about Japanese culture. It can be argued that the role of developing a personal relationship in certain cultures is quintessential for all business transactions as the Chinese do not do business with people they have not established relation with (Herbig and Martin, 1998).

The style of negotiator is a subjective concept and varies across different cultures. However, it is important of the negotiators to be aware about their counterpart's style of negotiation. Similar to the cultural difference, if the style of negotiator is not taken seriously, this could impact the deal as some negotiators have a very different way of negotiating. For example, a buying party might prefer to reschedule meetings with their suppliers in the pre-negotiation stage or prolong the face-to-face negotiation stage in order to test the patience and reliability of their suppliers.

Moreover, Feghali (1997) explains that, intercultural scholars have done research on a limited number of world regions; the opportunity exists more than ever to explore, develop, enrich, and validate intra-cultural and intercultural communications theory in prime regions especially the Arab World. In an extensive study investigating Saudi Vs American managers, problematic intercultural communication was identified by Adelman & Lustig (1981). The study highlighted that Saudi managers thought Americans lacked performance of social rituals and knowledge of language appropriate for formal and informal situations. On the other hand, American managers believed Saudis have issues in expressing ideas clearly and concisely. In normative pillar the schemas and expectations are important elements for understanding the social structure. Hence from the above explanation the relevance of negotiation and normative pillar can be argued.

There are multiple strategies negotiators from different regions of the world follow, using culture as a baseline. Some adopt the traditional, i.e. questions and answers (Q&A) strategy, while others heavily depend upon substantiation and offers (S&O)

strategy. The former strategy is one where negotiators use direct, and where appropriate anecdotal, evidence to ask and seek answers from counterparts. On the other hand, S&O is a more relaxed and indirect strategy where negotiations take place sequentially (Brett, Gunia and Teucher, 2017). In addition, the effect of cultural differences, rationale for choosing a specific methodology and gains made are also highlighted. The Japanese are found to tentatively opt for S&O strategy while the Americans prefer Q&A (Brett and Tetsushi, 1998; Adair, Tetsushi and Brett, 2001).

Kumar & Worm (2004) in their seminal paper titled 'Institutional Dynamics and the Negotiation Process: Comparing India and China', identified three sets of issues. 1) Mode of thinking - analytic or holistic 2) Dominant behavioral patterns - individualistic versus collectivistic 3) Perception of justice - distributive justice which is salient or distributive and procedural justice; are key aspects of culture that are important in studying negotiations. The outcome was noticeable when these sets were applied to different stages of negotiation between Indians and the Chinese in normative settings. In pre-negotiation stage, the moralistic character of Indian thinking may increase the transaction costs of negotiation, whereas the need to rely on 'guanxi' (Chinese relationship building) is emphasized. During negotiations Indians are contending and analytical about a solution, and on the other hand Chinese compromise and share pragmatism when negotiating for a solution. Lastly, in the post negotiation stage Indians are vocal and communicate their concerns directly, whereas Chinese are subtle and indirect when sharing concerns (Kumar & Worm, 2011). Norms can therefore be

regarded as informal and invisible rules of the game and uncodified values such as what is planned behavior of starting entrepreneurial activity (Krueger, Reilly, and Carsrud, 2000).

Negotiators adopting different styles during negotiations can consist of various traits from the perception of valuing relations in negotiations, communication, time, and other aspects which are derived from their cultural background. Hence, negotiation style is not limited to giving more importance towards relationship building but, it is more to do with less familiar cultural elements such as some negotiators communicate in a different style, while others practice a less formal style by adopting humour to enhance the atmosphere during negotiations, and other styles could be prolonging the time of negotiation dealings. Therefore, similar to how there are differences in dialects of languages, it can be argued negotiators coming from different cultural background represent style. In this study, it will be useful to identify the styles of Saudi and UK negotiators on various aspects such as time, communication, and values.

## **2.8 Relationship Building and Behavior in Negotiation**

In Chinese business culture the concept of Guanxi is based on connections, family networks and actions as a major social psychology (Ghauri & Fang, 2001). Similarly, Hutchings & Weir (2006a) explain that the concept of Wasta in the Arab World refers



to social networks of interpersonal, family, friends that facilitate in exercising power, influence, and information sharing through social and political networks for the creation of opportunity. In addition, it offers economic benefits to individuals holding high occupational roles who use Wasta extensively to get things done swiftly as it is a system that is widely practiced and has influence in decision making (Hutchings and Weir, 2006b; Cunningham and Sarayah, 1993; Whiteoak *et al.*, 2006). Although Wasta plays a positive role in mediation, it has negative connotations of corruption associated with bribery, nepotism, and favouritism that impacts organisational settings negatively (Hutchings and Weir, 2006; Cunningham and Sarayah, 1994; Tlaiss & Kauser, 2011). Therefore, it can be argued that foreign executives doing business in the Arab World exercising Wasta are likely to achieve a positive outcome during negotiation since it has an influence on decision making.

The concept of Wasta is linked with the concept of relationship building because Wasta is influenced based of strong ties with parties involved in business dealings. Without having strong relations the possibility of exercising Wasta is low. Hence, for this study, it is imperative to investigate the influence of was in the relationship-building phase during the pre-negotiation stage. Moreover, how exercising a Wasta during face-to-face negotiation stage can influence the decision making process of a negotiator.

Khakhar and Rammal (2013) in their research “Culture and business networks: International business negotiations with Arab managers” undertaken with 30 Lebanese

managers involved in non-Arab negotiations found that trust and relationship building were greatly important for Arab managers as they trusted well-established companies in comparison to new small to medium enterprises which lacked market presence; Arab managers had a cultural element of stereotyping and generalizing negotiators' backgrounds, such as British negotiators being less risk averse compared to Saudi. It was also found that Arab negotiators tend to follow a polychronic time system, whereas managers from volatile countries such as Syria and Lebanon display monochronic behavior. In addition, it was deduced from their study that Wasta (Nepotism) or referent power is related to business and social networks and used as a bargaining tool to negotiate with foreign parties, widely practiced amongst Lebanese managers, and has a significant influence in decision making in Lebanon (Khakhar & Rammal, 2013). However, there is lack of understanding of how Wasta is used and applied in business dealings, largely due to limited research undertaken in this area (Whiteoak, Crawford, and Mapstone, 2006).

The concept of relationship building without a doubt is a key concept in international business negotiations. However, what means are applied to establish relations and enhance existing relations with counterparts during which stage of negotiation needs to be further investigated. Some negotiators can adopt relationship building in the pre-negotiation stage while others prefer to do so in the post negotiation stage once they are satisfied with dealing with their counterparts in the formal stage. Moreover, the topic of Wasta widely practiced in among businesses in the Arab world can be useful to put in the relationship building context to study to what degree do Saudi buyers value and

practice Wasta. Moreover, the merits and disadvantages associated with Wasta in connection to the negotiation process.

## **2.9 Role of Religious Beliefs in Negotiation**

Religion plays a vital role in understanding and implementing phases of the negotiation process in terms of international business negotiation or negotiation strategy. Historically, it can be found that numerous geographies were reshaped in certain regions, stretching from Far East Asia to the Middle East. This was a result of an effective negotiation strategy which had religious elements attached. According to an estimate by a prestigious research centre, 83% of the global territory links is linked with a religion – of which approximately 23 % share is attributed to Islam (Pew Research Center, 2014).

Major religions of the world provide basic fundamentals and clear ethical guidelines for moral human interactions, including in business dealings. In addition, in regions of the world such as Asia and the Middle East, religious beliefs or rulings define many laws and business etiquettes. Bachkirov and AlAbri (2016) in their paper explained how Islamic teachings from the Holy Quran influences from the negotiating behaviour to decision making. They have argued that Islamic principles serve as a building block for business activities for negotiators residing in Arab countries, and western negotiators during cross cultural negotiation should be convinced that their counterparts have a different pattern of behaviour and thinking influenced by the religion. Thus,

underestimating the business values that come along in the negotiation process in such nations would be a recipe for failure. If we take the example of Islamic religion which is predominant in the Middle Eastern region in terms of constitutional infrastructure and development, then various scholars have argued that there exists a close relationship between religious constitution and business. Furthermore, in discussing the ethical conduct in the context of business negotiation, it becomes imperative to understand the Islamic rulings which are essentially two; either lawful or unlawful (Mohammed, 2014; Melé, 2015).

It is no doubt that Saudi Arabia is an Islamic country and most of country's governing policies to social practices are in accordance to Shariah law. Therefore, the Islamic element is highly present in the negotiators' behaviour and pattern of thinking when dealing with UK suppliers. The UK suppliers not only need to be aware of their religious values but also observe basic etiquettes that may not hinder Saudi negotiators, including from sensitive religious topics to the promotion of prohibited products. This can impact the overall negotiation process of negotiation with the negative and positive outcome depending on how they are utilised.

There is a vast amount of literature dedicated to cross-cultural negotiations focusing on different regions of the globe. Scholars in the field of international business and negotiations have investigated and studied several key aspects concerning negotiations involving religious beliefs and/or cross-cultural elements. For example, analysis of Chinese ethics and values pertaining to business relations, and in some

instances experimentally-backed Chinese negotiation scenarios, are also found in literature (Fang, Zhao and Worm, 2008; Hyeam, 2012; Chuah, Hoffmann and Larner, 2014; Sow and Tsz, 2016). The findings gathered are clear in informing negotiators that Chinese core values and ambitions set out are explicitly in line from the very initial stages of business negotiations. Similarly, the religious values between Saudi and UK buyer-supplier negotiations can be impacted from the pre negotiation stage.

In addition to the cognitive approach in the negotiation process, religious variations can often influence the judgement of the negotiators. It is widely seen that culture is tied with religion and, therefore, has an economical, dynamic or durability-related impact. Similarly, nationalities can change the strategy of the entire negotiation process . For example, Italians adopt a different negotiation behaviour when dealing with fellow nationals. This argument becomes of partial basis when performing a comparative analysis on behavioral modelling in inter-cultural negotiation, from studies Adler & Graham, 1989; McCall & Warrington, 1990)

This can be related to Saudi Arabian Islamic culture where almost business activities go hand in hand with religious values. An example is the closure of workplaces during the prayer time where even banks pause their working time until prayers are completed. Similarly, during the month of Ramadhan, the business hours are affected and this can pose some influence on negotiation deals taking place during this period. It can be

argued that religious values are embedded in the Saudi Arabian society and UK negotiators showing appreciation to Islamic values can result in a positive outcome.

The influence of religious beliefs, in particular the Muslim belief system, has also been qualitatively observed by cross-cultural negotiation experts (Richardson and Gulzar, 2018). In non-secular nations, religious links are seen even at a business level. Good examples derived from literature are the Kingdom of Saudi Arabia and Qatar, where Islamic tradition and values are strictly implemented in business ethics as well as contracts. Although, there are many reasons why a negotiation process may end in failure, as seen in the literature cultural differences are one of a common causes – as seen in the literature (Brett and Tetsushi, 1998; Paik and Tung, 1999; Reynolds, Simintiras and Vlachou, 2003; Alberston, 2007; Hyeam, 2012; Abosag and Lee, 2013).

Religious affiliations can have an impact on the decision making process of negotiators. It is well acknowledged that several key features need to exist in order to have a promising business agreement. These include elements attached to an individual's personality such as trust, professionalism, business competence and commitment (Abosag and Lee, 2013). Furthermore, these authors have made a qualitative research effort aimed at understanding trust formation between business counterparts in Saudi Arabia within the context of 'Et-Moone relationships'. Their findings were that personal traits and the trajectory of relationships with potential business partners relationship

were of great importance. Moreover, social and professional history was generally looked at before initiating any pre-negotiation interaction.

It is well established that taking negotiation to an international level requires cultural knowledge and intercultural behaviour when communicating. While literature at some length focused on the influence of religious values on negotiations, this subjects is not given enough credit. It is considered as a taken for granted element and has possibly received less attention because it is considered irrelevant due to monocultural negotiations where both parties have no differences in religious beliefs. However, for this study there is a strong contrast in the religious values of both parties involved in negotiations. Furthermore, when deals require contractual fulfilments or drafts, there must be a clear understanding of the behavioural quality and social relationship between all parties. Therefore the role of religious beliefs can be used in identifying the cognitive cultural element of the institutional environment and investigating its significance in influencing the negotiation process.

### **3. Conceptual Model**

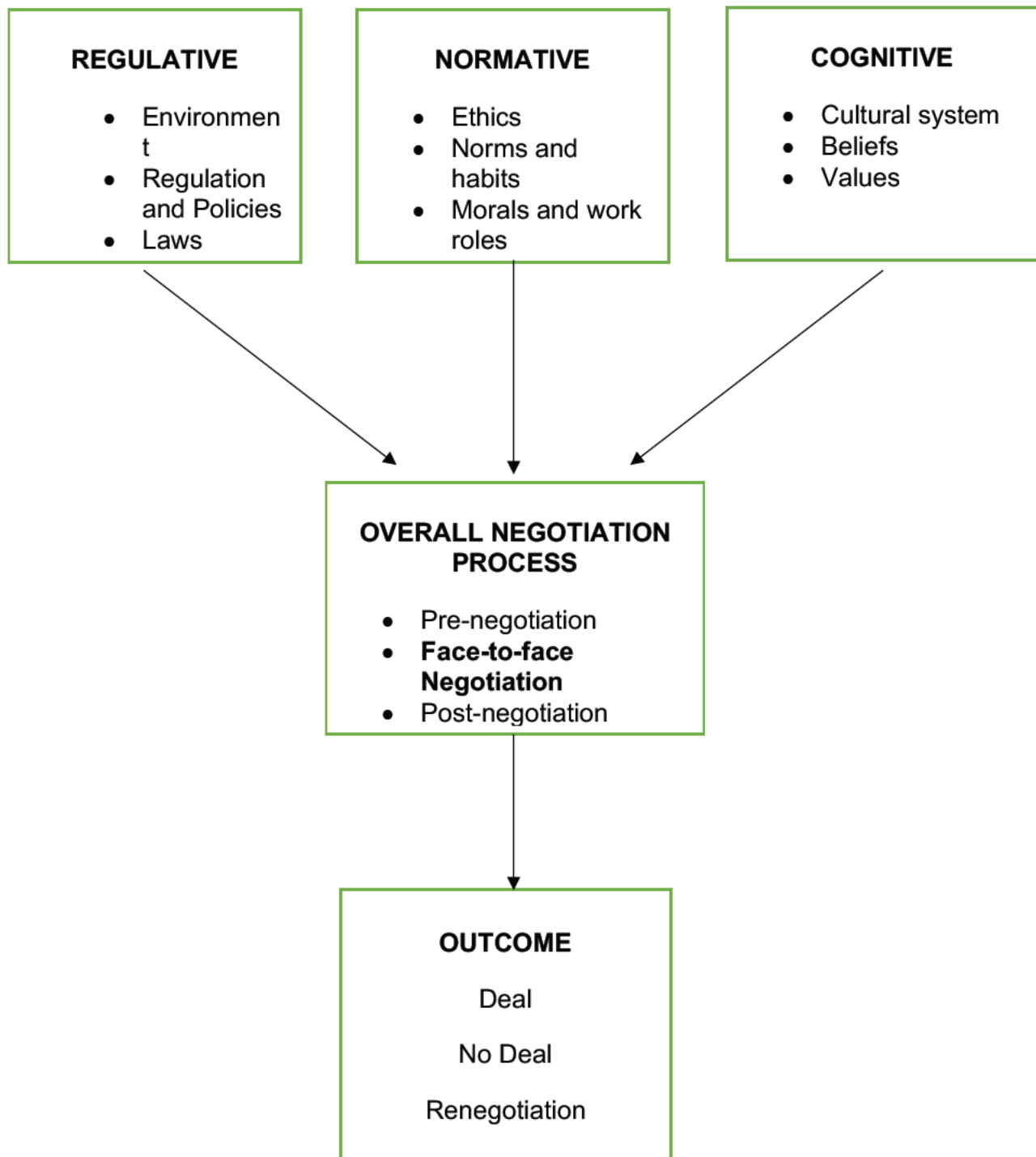
**Introduction:** To answer the research questions of this study, a conceptual model is developed by extracting main elements from the literature review conducted in the previous chapter. The institutional constructs are elaborated and the stages involved in

the complete negotiation process model. The model will help the reader to understand the influence of institutional constructs on the overall negotiation process and the outcomes. Finally, how all this is connected to answering the research questions for this study will be discussed.

Scott (2014) reports a conception of institutions as multifaceted systems that incorporate symbolic systems- cognitive constructions, normative rules, and regulative processes carried out through shaping social behavior. Therefore, institutional theory is concerned with deeper and more resilient aspects of social structure. It considers the processes by which structures including schemas, norms, rules, and routines, become established as authoritative guidelines for social behavior (Ken & Michael, 2004). More importantly, institutional theory is expected to offer a powerful explanation of both individual and organizational actions and processes (Dacin et al., 2002). No single model can explain every cross-cultural negotiation situation as there is simply not the level of knowledge to create such a model, and likely never will be. (Lewicki et al., 2010, p. 443). The model is based on institutional theory by Scott (2014) and the process of international business negotiation by Ghauri and Usunier (2003). The model explains each element of institutional theory comprising of variables that influences the face-to-face negotiation resulting in the outcome of the process. Therefore, this study endeavors to study the influence of institutional environment on cross-cultural negotiations between Saudi and the West.



Figure 1: Conceptual model of the influence of institutional environment on negotiation process



*Source: Based on Institutional Theory by Scott (2001) and A framework for international business negotiations by Ghauri & Usunier (2003, p.9).*

### **3.1 Regulative Factors**

As discussed in the preceding sections that the regulatory element of institutional theory is about the laws, rules and regulations that affects the organizations and individual of a country. Hence, the regulative pillar consists of environment, regulation and policies, and ethics that influences the negotiation process. Each element of the regulative pillar can influence can influence one stage of negotiation process and all three stages as well. For example, the evidence suggested that contracts are exchanged normally in face-to-face negotiation stage and rarely in post-negotiation stages.

Environmental factors can be regarded as the political, social, and structural factors that can be applied to parties involved in negotiation process (Ghauri and Usunier, 2003). It can be argued that environmental factors can affect the whole negotiation process significantly. For example, political instability such as riots, war, and change in government structure of the host country where negotiation is to occur may impact the negotiation by postponing or arranging in a different region which is secure. Furthermore, environmental factors can also lead to change in economic conditions such as inflation, fluctuation in currency which can lead to changes in the terms and

conditions of the contract which takes place in the face-to-face stage of negotiation. In addition, the environment can also be referred to the interference of third parties involved in the host country at the time of pre-negotiation, which occurs when parties attempt to get acquainted and gather information, and also during face-to-face negotiation when the use of agents is vital to deal with government laws and regulations.

Government rules and regulations are not only important for negotiations but for every aspect of business. This is because every business needs to comply and adhere to governing laws of country of focus. Otherwise, not adhering to government rules and laws may result into failure of negotiation deals or penalties. In this study, the country of focus is Saudi Arabia where Western negotiators visit the country for negotiations. It is important to note that Saudi Arabia has a 'Sharia' Islamic law which is extensively practiced. As a result of this, Western negotiators have to be aware of do's and don'ts when negotiating in Saudi Arabia. An example is the severe punishment for getting involved in bribery which does happen in certain countries when negotiating in the lobbying stage of pre-negotiation. Hence, government rules and regulations factor can influence all stages of negotiation but have a higher degree of influence in the face-to-face negotiation stage when exchange of contracts take place.

### **3.2 Normative Factors**

The normative pillar deals with the norms practiced at the work place and have been described as rules of the game by Scott (2014). Ethics, norms and habits, and morals of negotiators have been identified as the elements of the normative pillar that influence the negotiation process. In negotiation, ethics can be related to lies, deception, and corruption. These can occur in the pre-negotiation stage when a negotiator from the opposing party attempts to gain secret or valuable information unethically. Moreover, normative factors such as habits and norms can influence the face-to-face negotiation stage when negotiators' styles vary. For example, negotiators from certain cultures tend to make more concessions during the formal stage of negotiation. Whereas, other negotiators, tend to spend less time in negotiation and focus on relationship building which occurs in the pre-negotiation and post-negotiation stages. In addition, certain cultures have a bureaucracy based system where only top management can speak more and make the decisions.

Hence, it can be argued that the normative pillar influences the overall process of negotiation, as it deals with norms of negotiators which are practiced in all three stages of negotiation.

### 3.3 Cognitive Cultural Factors

These are the taken for granted elements of culture which can influence overall negotiation process. One of the important elements are is the cultural system of negotiators of both parties. For example, in Chinese culture 'Guanxi' of relation building is widely practiced and given much importance. On the other hand, cultural systems may vary significantly as every individual has a different mode of thinking, perceptions, and mindset. Negotiators from Western cultures prioritize getting to a deal as quickly and as seriously possible. On the other hand, Arabs place more importance on getting to know casually prior to meeting formally in negotiations. This element also deals with the role of time in negotiation as some negotiators place much importance on time and others don't. An example of negotiators that don't see time as a valuable element are Arab negotiators as they tend to practice humour and discuss sports and leisure topics during formal negotiations.

Moreover, beliefs and values are important elements that influence the negotiation process. In certain cultures, religious beliefs are practiced in business. For instance, in Saudi Arabia where Islamic law is practiced, the call to prayer five times a day is respected and given more importance than business. Not only do all retail stores close during the prayer time, but also the banks stop serving customers at the time of prayers. This can have implications on pre-negotiation and face-to-face negotiation stages. For

example, Saudi negotiators have to excuse their counterparts at the time of prayers when they are socializing in the informal stage and also at the time of face-to-face negotiations. Hence, cognitive cultural pillar deals with invisible elements or unknown elements of culture that are practiced in negotiation.

### **3.4 Pre-negotiation**

This stage is also known as informal negotiations. Primarily, in this stage negotiators of both parties get acquainted and it is informal in nature. It is in this stage where the prospective negotiators of either party have an opportunity to establish a relationship that can build trust in future meetings. In addition, negotiators can casually discuss the topics of their interest and gather information which can help them in preparation. It can be argued that this is an initial stage to every negotiation and helps negotiators of both parties to become confident and friendly. For example, the host party might invite the visiting delegation for a lunch or dinner, or take them for a sightseeing tour. The head of one party may invite head of their counterpart. The pre-negotiation stage can affect and the face-to-face negotiation stage to certain extent. For instance, there is a possibility that if negotiators skip the initial stage or did not build relationship may lead to slow pace in face-to-face negotiations and eventually less friendly atmosphere. According to Ghauri and Usunier (2003), in this stage a negotiator who finally submits their offer can be at disadvantage as the party which does not exercise patience is at

a loss. In addition, signals are exchanged by parties of politely refusing the offers as well as in aggressive methods.

### **3.5 Face-to-Face negotiation**

This is also known as the formal stage of negotiation and can undoubtedly be regarded as the most important stage of negotiation. It is impossible to have any negotiation without practicing the face-to-face negotiation stage. It is during this stage that agreements are signed, concessions are made, contracts are exchanged and decisions are made. In certain face-to-face negotiations, the third parties, meaning agents from the government, are involved as well as translators if needed because much importance is placed in this stage. It is in this stage where disagreements and conflicts by parties may take place and are resolved by agreeing to best alternatives.

Although, the overall negotiation process will be studied in this research, the main focus and more importance will be on the face-to-face negotiation stage. This is because, the main motive of this research is to investigate the cultural factors that influence the negotiation process. This involves studying how regulative, normative, and cognitive elements of institutional theory influence the negotiation process between Saudi and Western negotiators and face-to-face negotiation at the centre of the negotiation

process which is most relevant to all elements involved in the institutional environment. Moreover, the behavior, attitudes, and style of negotiators can be investigated more accurately from the face-to-face negotiation stage. In other words, the face-to-face negotiation stage is the essence of the negotiation process and in order to understand how negotiators are culturally influenced during negotiation, then more attention needs to be given to investigating the face-to-face negotiation stage. Hence, it is in this stage where contracts are more likely to be exchanged, conflicts and disagreements take place, and norms, attitudes and style of negotiators are practiced. It is therefore imperative to keep face-to-face negotiation stage as the main focus and yet study the other stages of negotiation process.

### **3.6 Post-negotiation**

Following the outcome of negotiations, in this stage all terms are agreed. Ghauri and Usunier (2003) state that in this stage the contract is drawn and signed by the negotiators and if parties do not pay attention to the details specified in contracts then troubles may arise and eventually renegotiation can take place. It is advisable that terms and conditions agreed and written in a contract, should be concise and easy to understand to avoid any confusion. Nonetheless, post-negotiation is an important stage contributing to the smooth flow of negotiation conclusion. This stage can also act as



trust and relationship building for future negotiations if former negotiations were successful.

This model developed will facilitate in answering the research questions of this study and guide the research process from data collection to analysis. The model represents the variables developed from institutional theory and the framework of international business negotiation. Primarily, the model illustrates that the factors of institutional theory, name regulatory, normative, and cognitive play a role in influencing the process of negotiation which consist of three pre-negotiation, face-to-face negotiation, and post negotiation. Although, the complete process of negotiation will be studied however, more attention will be dedicated to the face-to-face stage as it is considered to be the most important stage of negotiation. The model developed assists in answering the research questions in the following ways.

It helps in investigation of overall influence of the institutional theory, comprising of three pillars in the process of negotiation. It aims to understand how can each pillar of institutional theory influences the overall negotiation process. For instance, the regulatory pillar consisting of variables such as environment, regulation and policies, and ethics influencing all the stages of negotiation between Saudi and British companies involved in negotiations. All three variables of the regulatory pillar (Environment, Regulation and Polices, and Ethics) will be studied to find out how they influence the pre-negotiation stage, face-to-face negotiation, and post negotiation

between both parties. For example, the environmental factors refer to social, political and economic issues where negotiation takes place. Thus, if there are any changes in political state such as riots, strikes or Government crisis, this could influence all stages of negotiation. Similarly, normative and cognitive pillars will be studied in the same manner to explore their influence on the overall negotiation process. Studying the influence of regulatory, normative, and cognitive factors comprising of variables in the negotiation process and its three stages will allow us to answer how the institutional environment can influence the overall negotiation process.

The model will also endeavor to assist in answering the second research question concerning how negotiators deal with regulatory factors influencing the negotiation process. All variables selected from institutional theory and their influence on each stage of negotiation will lead to different outcomes throughout the negotiation process. Hence, the model will facilitate in exploring the issues that may arise and what measures are taken by negotiators of both parties to handle them. The behavior, attitudes and experience of negotiators can be explored by conducting semi-structured interviews and participant observations which is explained in the data collection section. Normative and cognitive institutional pillars comprise culture related variables such as beliefs, values, norms, ethics, and work roles which can influence the researcher to question the negotiators. In doing so, the researcher will be able to achieve answers to

exploratory questions of how these cultural elements influence different stages of the negotiation process. The model will serve as a basis for guiding researchers not only how to select cases and data collection methods but also, serve as a structure to guide researcher appropriate direction follow in order to find out the influence of variables without getting into irrelevant areas that serve no basis to answer the research questions

## 4. Research Methodology

**Introduction:** the main purpose of the methodology chapter is to the designing of research in a systematic order to collect appropriate data, and analyse data to answer the research questions. The chapter is structured segregated in various sections to maintain clarity and focus of research methods. In this chapter choices made for research designs, approaches, philosophical stance are justified in favour of this research. Furthermore, the advantages and limitations are also explained for data collection techniques as well as the selection of cases. The explanation and justification for the qualitative data analysis criteria used for this research are provided. Ultimately, the development of interview guide that involved relevant questions for semi structured interviews.

### 4.1 Research Design

Research design is concerned with planning how the data will be collected in the most systematic manner. It facilitates the researcher to not only decide between conducting

qualitative, quantitative or mixed methods to conduct but more importantly it helps in developing procedures and techniques within chosen method (Creswell, 2014). For example, it is comprised of clear research objectives taken from research questions then categorizing the relevant source of data collection and analysis, as well as any ethical issues that are foreseeable for the research (Saunders et al., 2012). Ghauri and Gronhaug (2010) explain that research design is classified research categories of Exploratory research, descriptive research, and causal research, cross sectional, and time-series.

#### **4.2 Induction and Deduction**

There are two research approaches, inductive and deductive, and it is imperative for a researcher to adopt from them. Both approaches of the study whether the researcher is seeking specific or general explanations have a significant influence in using a single or multiple case study method (Ghauri and Grønhaug 2010; Ghauri 2004; Ghauri and Firth 2009). This can be supported with the help of Ghauri and Grønhaug's (2010) explanation that a multiple case study is suitable for doing a study with an inductive approach to find general explanations. In an inductive approach generalization is from specific to general and it is theory building and generation rather than theory testing which is the case with deduction (Saunders et al., 2012). The process of induction goes from observation to findings to theory building (Ghauri and Grønhaug, 2010). The

majority of qualitative researchers in business studies tend to use an inductive approach, which involves observing facts to generate or build theory. Inductive approach involves exploring phenomena by collecting data, then building or generating theory in the form of a conceptual model (Saunders et al., 2012). An inductive approach is suitable for this research, as the phenomenon being studied is negotiation and use of institutional theory to develop a conceptual model to study the influence on negotiation. One of the major limitations of inductive approach is the fact that researchers cannot be 100 per cent sure about the inductive conclusion, since they are based on empirical observations and there is a probability for observations to be incorrect (Ghauri and Grønhaug, 2010).

On the other hand, there is deduction in which the starting point is theory, identified from literature, and then a strategy is developed to test the theory. Saunders (2012) state that generalizability in deduction is from general to specific. Conclusions are drawn from logical reasoning (Ghauri and Grønhaug, 2010). There are some important characteristics of the deduction approach, which is to develop hypotheses from the literature, then tested to deduce acceptance or rejection (Ghauri and Grønhaug, 2010; Saunders et al, 2012). The deduction approach is most suitable for quantitative research (Ghauri and Grønhaug, 2010). This approach is not relevant too this research as the theory is not being tested and neither does the research deals with quantitative data.

Therefore, this study adopts an inductive approach and endeavors to find general conclusions from multiple case studies. The justification for an inductive approach is mainly because the research adopts an exploratory research design. In addition to this multiple case study research methods are used in this research, which aims to provide a general explanation from the conclusion of multiple cases. Since the focus of this research is to study the influence of institutional pillars on negotiation.

### **4.3 Exploratory research design**

According to Ghauri and Gronhaug (2010), exploratory research design is most applicable when the research is more or less known. In this study, the problem is somewhat known and demands a great deal of investigation and exploration. The cross-cultural negotiation is a very broad and ongoing topic. Moreover, exploratory research design is suitable for topics in which a large stock of research has been done. Furthermore, unlike cross sectional research design which are used for a particular phenomenon and that period (Saunders et al., 2012). Exploratory research design strictly demands skills such as observation, information collection and theorizing. These three elements are relevant to this study's research. For example, in certain occasions observation of negotiations will be needed to explore how negotiations take place and

what cultural systems are involved such as body language, etiquette and other characteristics. Information collection will be possible with the help of in depth interviews with the officials.

The limitations associated with exploratory research design are that over dependence on qualitative data, time and resource consumption. One of the greatest demerits related to exploratory research is the fact that it does not provide the research with the definite conclusion, as it is more inclined towards inductive rather than deductive approach. It can be argued that there is no one research design or method that is entirely suitable, as every method comes with limitations and benefits. It is therefore meaningful to select and choose the most relevant and suitable for the research problems and questions.

#### **4.4 Descriptive research design**

In descriptive research the aim is to gain an accurate profile of event and individuals which could be a piece of exploratory or even explanatory research (Saunders, 2012). According to Ghauri and Grønhaug (2010), in descriptive research the problem is known and understood in a greater capacity. Although descriptive research design consists of case study, observations, and surveys which can be suitable for this study. It also deals with quantitative data which is not appropriate for this study, it seeks



accuracy from the subjects which is not possible, and more importantly the researcher is well aware about the research problem which is not the case in this study.

One of the major limitations of descriptive research can be identified as too textually descriptive in nature. As Saunders (2012) note that it is not safe to say that descriptive research is interesting and project tutors are reluctant to work due to the fact that it is too descriptive. Therefore, descriptive research is not applicable for this research as this research involves data collection and is not purely dependent on descriptions.

#### **4.5 Causal research design**

This research design is based on cause, effect, and result (Ghauri and Gronhaug, 2010). It can be argued that causal research design is more experiment based as the focus is to test and obtain results. It is also concerned with numerical data and statistics. In such case, it is difficult to obtain answers to qualitative nature based questions, as well as to understand the behavior and attitudes of people.

Apart from abovementioned reasons for the suitability of adapting exploratory research, additional justifications are that the nature of this research is more qualitative and

exploratory. For example, the outcome of how institutional environment influence the negotiation is unknown and needs to be explored. Moreover, this research design offers increased understanding of the topic. For example, by conducting semi-structured interviews more than required information can be obtained. In exploratory research design, it is possible to sense whether the data collection is heading in the wrong direction, as there is freedom of information collection where relevant questions can be asked and answers obtained instantly. As Saunders (2012) states that exploratory research can be regarded as a valuable means to gain insights into the topic of research. It is relevant because in this study the aim is to collect valuable information in relation to the influence of culture on negotiations between Saudi and Western negotiators. Furthermore, another reason for choosing exploratory is because apart from the literature search it involves seeking information by interviewing the experts, which is the intended means of getting hold of data for this study. Lastly, as Saunders (2012) asserts that in exploratory research the process starts from broad and is concluded to narrow as the research progresses.

To reiterate, the applicable design for this research is exploratory research design as the study aims to explore the negotiation phenomenon. In order to do this, exploratory research design involves tremendous investigation into research topic to which this research is committed. Moreover, the reason for choosing exploratory research design is also because it supports and favours the nature of the study which is qualitative and

the research questions are exploratory. Ultimately, the case study method is used in this research which is part of exploratory research design.

#### **4.6 Interpretive Framework or paradigm**

As Guba (1999) states overall research contains of 'ontology', 'epistemology', and 'methodology' which can be termed as paradigm. There are four qualitative research paradigms that function within relativist ontologies and interpretive epistemologies: positivists and postpositivist, constructivist-interpretive, critical, and feminist-poststructural (Denzin and Lincoln, 2011).

##### **4.6.1 Ontology**

Ontology is concerned with the study of *being* and answering questions related to *what is* (Gray, 2014). It is the study of philosophy that guides researcher to make sense of *what is the nature of reality?* (Denzin and Lincoln, 2003). There are varying views for ontological assumption from different authors. Bryman (2016) explains that ontology is the study of social entities which can be considered as objective or social constructions created by the actions of social actors. On the other hand, Blaikie (1993) acknowledges for the purposes of the present study that 'ontology refers to claims or assumptions that a particular approach to social enquiry makes about the nature of reality' (p.6).

Furthermore, he developed six ontological assumptions to understand the research paradigms namely shallow realist, conceptual realist, cautious realist, depth realist, idealist and subtle realist (Blaikie, 2007). While Bryman and Bell (2015) explain that common ontological positions are objectivism and constructionism. Crotty (1998) argues that objectivism can be identified as realism in ontology. Moreover, according to him ontological realism is very much compatible with epistemological constructionism.

#### **4.6.2 Epistemology**

Epistemology is the study of seeking answers to the questions to reach a conclusion of what is perceived as acceptable knowledge (Bryman, 2016). The main motive is to understand a phenomenon being under investigation by asking questions about what and how reality or knowledge can be established. In epistemological assumption, the knowledge is obtained subjectively, when the researcher gets as close as possible to participants by conducting fieldwork and interacting and acquiring firsthand information (Creswell, 2013). Epistemology is a branch of philosophy which deals with the origin, nature, and limits of human knowledge by asking epistemological questions similar to *“what is the relationship of knower to the known”* or *“How can we be sure that we know what we know”* (Guba & Lincoln, 1989, p. 83).

#### **4.6.3 Positivism and Interpretivism or constructivism**

The concept of positivism was invented in 1970 by Comte (Blaikie, 2007). In the nineteenth century, positivism provided general worldview that reflected the achievement of science. The positivist paradigm believes that the researcher is exposed to reality externally and must investigate through observation or a rigorous process of scientific enquiry (Gray, 2014). According to Bryman (2016) to understand positivism in an exact meaning is difficult, as for some it is regarded as a descriptive study and for others it is perceived negatively for data collection purposes. However, he explains positivism is an epistemological position which aims to test hypotheses and apply a deductive approach. This position received criticism for being regarded as a 'term of abuse that has been much over-used' and to the extent that it is 'no longer a serious choice within qualitative research' (Shaw, 1999, p. 45). Adopters of the positivist stance are more inclined towards the quantitative research as it involves facts based upon scientific observation and on empirical inquiry (Gray, 2014).

Interpretivism also known as social constructivist or constructionist approach, on the other hand is the opposite of positivism (Robson and McCartin, 2016). A naturalistic approach by a qualitative researcher is involved in this paradigm, where things are studied in the natural way and phenomena is interpreted in a meaningful translation to understand (Denzin and Lincoln, 2013). Moreover interpretivism asserts that social reality and natural reality are different and can be interpreted with approaches like

realism, phenomenology, symbolic interactionism, hermeneutics and natural inquiry (Gray, 2014). In a nutshell interpretivism is more likely to be associated with qualitative research (Punch, 2014).

The interpretivist or constructivist approach fits well for this study and in answering the research question. This nature of this research is purely qualitative, which interpretivism is more inclined towards. Moreover, approach fits the justification that social reality can be understood by interacting with individuals to understand their experiences and behavior, which is exactly compatible with the aim of this research. Therefore the philosophical stance for this research is the interpretivist approach.

#### **4.7 Research Methods**

The main purpose of research methodology is to obtain information from the orderly collected data to solve a research problem (Ghauri and Grønhaug, 2010). It has been argued that research in international business often deals with dynamic and volatile situations that demands flexible research methods and designs (Sinkovics, Penz, and Ghauri, 2008; Ghauri and Grønhaug, 2005). To conduct effective research, a qualitative method will be used for data collection in this study. It has been chosen because methods involved in qualitative research are flexible and comprise of unstructured forms of data collection such as interviews (Saunders et al., 2012), and they involve behavioral science for researchers who tend to understand human behavior (Ghauri and Grønhaug, 2010). The focus of this research is to get an in-depth insight into the

institutional environment influencing intercultural negotiations. It has been stressed by Ghauri and Grønhaug (2010) that qualitative research is most suitable when the objectives of the study demand in-depth insight into a phenomenon. The nature of this research is mainly based on exploratory approach as it endeavors to achieve answers to the questions which have not been addressed previously. In a seminal study by Khakhar and Rammal (2013, pg., 582), they note that little research has been conducted in Middle Eastern countries and the negotiation process. Therefore, with an exploratory approach the emphasis will be placed on questions pertaining to the nature of 'why' and 'how' formal and informal institutions influence the negotiations. Thus, qualitative methods for exploratory research are most useful because they lead to hypothesis building and explanations (Ghauri and Grønhaug 2010). Geiger (2017) in their study have used qualitative methods and conducted 39 semi-structured interviews. In this research, the case study method will be used for selecting cases and collecting data. The following section presents the variation of case study, selection of cases, and collection of data.

#### **4.7.1 Case Study**

According to Robson & McCartan (2016) a case can be virtually anything varying from a group of participants for a study, or a study conducted on companies and institutions. The justification for using the case study method is because the nature of this research

is qualitative and the research questions demand the case study method. As case study method is used when the research question seeks to answer questions that deals with 'how', 'why', and 'what' (Saunders et al., 2012). In addition, case studies are considered to follow the inductive approach, allows the researcher to collect rich data, and favour the concept of understanding human behavior, which is best achieved by live experience (Willis, 2007). Ultimately, case studies have been categorized as 'flexible research design' (Robson & McCartan, 2016) due to their flexible nature, and are known for their capability adopting different data collection sources such as interviews and observations (Yin, 2014). They offer a holistic view of a specific project which makes case study more effective than other methods (Gummesson, 2000). Hence case study methodology is applied in this research considering the important factors such as the research question, approach and qualitative nature of the study. To understand the behavior of negotiators in the social context is key for this research and it is possible achieve this with the help of case study.

Case study research can be done as single-case or multiple-case study research. Single case is ideal for the research which endeavors to study a unique 'extreme' and 'unusual' case (Yin, 2014, pg.52), or if the organization being studied is very large and has global presence. Additionally, is reported by Ghauri and Grønhaug (2010) that single case is appropriate when a particular case is critical and research wants to test the theory, or when the case is revelatory. For example, Ghauri and Fang (2001), in their study about negotiating with the Chinese, have investigated a single Swedish



multinational telecommunications corporation Ericsson, in which over forty Ericsson Swedish and Chinese managers were interviewed. Hence, single-case is not relevant for this research as the rationale is not to select rare, extreme cases. These extreme cases refers to 'if it works here it will work anywhere' which is at a global level (Robson & McCartan, 2016). The aim of this research is not to reach a conclusion based on one particular case, but rather to explore and understand the influence of institutional environment on negotiation process between Saudi and British companies involved in negotiation with the help of institutional theory.

On the other hand, the multiple-case study method which is adopted for this research uses more than one case study. The rationale for choosing multiple-case is to align and match with the theoretical aspect of this research which is the influence of institutional environments on the overall negotiation process. For example, it offers simplification and justification to draw strong conclusions with more compelling reasons to believe that the support of theory may be qualified completely or partially, if three out of four cases suggest the same results predicted by the theory (Robson & McCartan, 2016). Furthermore, choosing more cases to study the research will not only enhance the quality of research but will provide more compelling justification to draw conclusions based on the theory developed. For example, single cases are also regarded as 'vulnerable' because the researcher is at risk if things go wrong for various reasons such as access or environmental factors that may be affecting the case area. Therefore, the multiple case study method is recommended over single-case because

the analytic benefits by studying more than just single case can be more effective (Yin, 2014). Thus, considering all these factors, the multiple case study method stands out as the most suitable method for this research. The following section deals with the selection of cases for multiple the case study method.

#### **4.7.2 Case Study Selection**

The criteria for selecting cases can be puzzling because it involves identification of the target population, and selecting potential companies and individuals which are part of the research (Ghauri and Firth, 2009; Ghauri 2004). The research is concerned with cross cultural negotiation and how negotiation process between Saudi and British companies is influenced by the institutional environment. Taking into consideration that accessible target population, relevant cases, and companies should correspond to theoretical framework and the variables being studied (Ghauri, 2004; Ghauri & Grønhaug, 2010). In order for the selection of companies to be consistent with the research problem, the companies selected are based on buyer-supplier business, which are based in Saudi Arabia as buyers and involved in negotiations with British companies as suppliers. Large size companies will be selected for case studies, as big firms experience complex problems and have expertise that can provide rich information on a particular case (Ghauri and Grønhaug 2010; Ghauri 2004; Ghauri and Firth 2009).

Number of cases is an important factor involved in case selection. It has been stressed that there are no specific criteria for number of case study selection as there is no upper or lower limit; this is because number of cases are influenced by the research objectives and problems (Ghauri and Grønhaug 2010). However, having at least two cases will generate a stronger effect and is recommended to be the goal of researchers involved in multiple-case study (Yin, 2014). Four case studies in buyer and supplier business are chosen. The companies selected will be based in Saudi Arabia's leading hypermarkets which comes under the retail sector. The stores selected are frequently involved in buying and selling with British companies. On the other hand, multiple case studies are suitable for studies which do not involve rare, or revelatory cases, and every case has a particular meaningful purpose for selection. For instance, in his paper titled, 'Negotiating with Firms in Developing Countries' Ghauri (1988) selected three case studies to understand the negotiation process between Swedish, Indian, and Nigerian firms.

The focus of this research is to investigate the influence of institutional pillars on the negotiation process between Saudi Arabian and Western negotiators. Each company selected will be large enough to be studied overall from the institutional environment perspective. As information tends to be richer in large companies according to Ghauri (2004). The companies selected are four leading hypermarkets in Saudi Arabia name;

1) Bindawood Hypermarket; 2) Panda Hypermarket; 3) Manuel, and 4) SAWACO . These companies chosen are heavily involved in buying and importing perishable and nonperishable products from their British suppliers. The relevant departments that involves negotiation, such as purchasing and sales will be sought for interviewing with senior managers who are and have been involved in negotiation with their British suppliers. As stated by Ghauri and Firth (2009), the important consideration in selection of cases is not differences but similarities, for example belonging to the same industry. The researcher has access to all four companies as the researcher once worked for BinDawood Hypermarket. With regards to Manuel and Panda, the researcher contacted their Sales and Marketing departments and explained the purpose of study to request approval for data collection. In their study, Iborra et al., (2015) selected cases from different sectors rather than one specific sector based on the criteria: (1) negotiations carried out in the preceding two years, (2) negotiations involving companies at least one of which was Spanish, and (3) companies selected had experience in negotiations.

*Table 1: List of Buyer and Supplier Companies*

<b>Company</b>	<b>Position</b>	<b>Department</b>	<b>Source of Data Collection</b>	<b>Location</b>	<b>Category</b>
BinDawood Hypermarket	██████████ ██████████	Purchasing/ Marketing	Semi-Structured interviews	██████ ██████	Retail

CPT International	[REDACTED]	Sales/Marketing	Semi Structured Interviews	[REDACTED]	Retail
SAWACO	[REDACTED]	Purchasing/ Marketing/Operations	Semi-Structured interviews	[REDACTED]	Water Desalination
John Crane	[REDACTED] [REDACTED]	Sales/ Finance/Legal	Semi-Structured interviews	[REDACTED]	Machinery
Allied International Trading	[REDACTED]	Sales/ Finance	Semi-Structured interviews	[REDACTED]	Retail
Manuel	[REDACTED]	Purchasing/ Marketing	Semi-Structured interviews	[REDACTED]	Retail
Gulf International	[REDACTED]	Sales	Semi Structured Interview	[REDACTED]	Retail
Savola (Panda)	[REDACTED] [REDACTED] [REDACTED]	Purchasing/ Marketing	Semi-Structured interviews	[REDACTED]	Retail

BinDawood and Danube hypermarkets are two of the national leading retail stores in Saudi Arabia. Savola-Panda Retail hypermarket and Manuel Saudi Arabia are multinationals retail stores. All four cases selected have commonality of retail industry. Two multinational cases are selected as the data tend to be richer in multinational

companies and they deal with complex issues, which are useful for data collection. On the other hand, BinDawood and Danube hypermarkets are also large national companies which are heavily involved in doing business with Western companies. In particular, the focus will be to study the negotiation process when they are involved in buying from their counterpart British sellers and vice versa.

#### **4.8 Data Collection**

The data collected by a researcher with the help of interviews, observations, experiments, and surveys is known as primary data (Ghauri and Gronhaug, 2010). Following the selection of cases, the data will be collected mostly through semi-structured interviews technique. Case studies often involve data collection through sources such as verbal reports, personal interviews, and observation as primary data sources in the form of email and personal interview (Ghauri and Gronhaug, 2010). It is hoped that the data collection will be completed through a semi structured form of interviews, which will involve interaction with interviewees. The use of semi-structured interviews will be applied for data collection. The justification for opting for semi-structured interview is because there is an opportunity for an interviewer to give a selected topic to the participant in a question form and then receive a detailed answer. This gives the researcher freedom to obtain relevant information from the answer and to edit or cut the irrelevant parts of the answer (Saunders et al., 2012). Moreover,

Ghuri and Fang (2001) conducted semi-structured interviews to maximize the understanding of how the Chinese negotiate in the Sino-Western business negotiation process. Their interviews comprised of Chinese officials and managers at Ericsson who were involved in negotiation. The duration of interviews is not fixed as it will be dependent on subjects responding to questions satisfactorily. For example, Wu and Choi (2005) conducted eight case studies investigating how buying company manages relationships between suppliers. They conducted several rounds of interviews on sites with the duration of each interview between 45 minutes to 2 hours, and unsatisfied answers were clarified through email, telephone calls or follow up visits in subsequent stages.

The research problem and the research objectives influence the number of cases to be studied (Ghuri and Firth, 2009). Therefore, four cases will be studied and from each company depending on their availability around 5-7 managers with experience in negotiations will be interviewed. For example, Iborra et al., (2015) conducted four case studies in their paper about negotiating behavior in service outsourcing, in which they interviewed six senior managers including assistant general managers and regional managers with interviews approximately lasting two hours. It is hoped that the number of participants that will be interviewed in this study will be around 40-50. The semi-structured interviews will be conducted with suppliers based in the UK to understand the negotiation process. Limitations associated are travelling outside the UK, language, and accessibility. All participants will be given consent forms informing them of the

purpose of the study and assuring them that their anonymity will be maintained throughout the study if they wish not to disclose their identity.

The triangulation method is not only as a useful feature of a case study but is also widely applied by researchers when conducting case studies. Ghauri (2004) identifies triangulation as a method that, in addition to minimizing the possibility of misinterpretation, offers a complete, holistic, and contextual portrait of the object under study. In this study, collection of data through different methods other than interviews, such participant observation, and reports, will be used. For example, Ghauri (1983) in his international package deal study supplemented interviews with company files containing contracts and relevant government rules that were shared between firms. In doing so, it was possible for him to compare the interview data with the written records of each company. Furthermore, Shi (2011) studied the impact of intercultural negotiation between Chinese MBA students versus their counterparts in American business school. In order to uncover the intercultural negotiation, an ethnographic technique was applied such as intensive observation in the field and audio recording interviews of three cases to triangulate the data. Using other sources of data collection such as participant observation, will provide the researcher with additional knowledge of the atmosphere in negotiation process such as behavior of parties, timing, and body language. The rationale for doing participant observation is not only because it is concerned with qualitative research but also because it allows the researcher to comprehensively participate and observe the activities of people working in the



organization (Saunders et al., 2012). The researcher will therefore use participant observation where possible in companies selected to participate and observe the negotiation process to gain insights of negotiators' behavior. This will enhance the quality of data collection and will also facilitate in cross checking the data.

#### **4.9 Data Analysis**

Qualitative data analysis has been described as one of the most difficult tasks; Miles (1979, p. 591) states "The most serious and central difficulty in qualitative data is that methods of analysis are not well formulated... the analyst faced with a bank of data has very few guidelines for protection against self-delusion, let alone the presentations of unreliable or invalid conclusion to scientific or policy-making audiences". Furthermore, Ghauri (2004) in his experience as an editor of *International Business Review* notes the connection between case analysis and the concluding section tends to be very weak in manuscripts, as researchers find it difficult to drawing conclusions that stem from the case study. He argues that story telling is not enough and self-criticism is required.

It is recommended for researchers to adapt a mixture of strategies such as pattern matching, chronologies, coding, clustering, decision tree modelling and matrices

(Ghauri, 2004). In this study, the techniques employed for analysis are chronologies, coding, clustering and matrices. The first stage involved in case study analysis is story telling by providing chronologies of organizations or individuals under study to develop longitudinal explanations and case description construction (Ghauri, 2004). For example, Ghauri (1983) in his international package deal initiated analysis by constructing a narrative of each negotiation, from initial offers and informal meetings to final negotiations and signing of contracts. Therefore, in this study, the narration of each company background and influence of institutional pillars will be explained to capture a conceptual model or build theory, understanding how elements and variables are connected to each other. The next stage is coding, where rearranging of data that has been collected takes place (Ghauri, 2004). In this stage, the classification of data is done through coding, data is broken down, conceptualized, and presented in an understandable manner. As was mentioned by Miles (1979), analysts are faced with bank of data which requires special attention for analyzing. In addition, Ghauri (2004, p. 12) states “as qualitative studies often help in building theories, coding requires extra care, and a balance between creativity, rigor and persistence has to be achieved”.

Wong (2008) reports that in qualitative research, data analysis involves systematically searching and arranging interview transcripts, observations, other forms of data that researcher makes sense out of the large quantity of data collected by coding and categorizing them. Additionally, the greatest obstacle a qualitative researcher faces is

the storage and organizing of data collected in a systematic order. Otherwise, the data collected keeps building on and becomes difficult for the analysis.

#### 4.10 Analysis Criteria

As explained earlier in the section of research methodology that this research involves studying the influence of institutional constructs of regulatory, normative, and cognitive on the entire negotiation process. Such analysis will demand to examine the impact of each component on the negotiation process. The components and elements developed in the model have been derived from the institutional theory and the literature review. The criteria used for the analysis of the processes of each component are elaborated further below, which are applied to analyze each case study as well as comparative case analysis. The content of formatting variables and entries actually depends on the analysts objective of answering the research question of the study (Miles, Huberman, Saldana, 2014). The key features used for representing the analysis criteria are detailed in table 2.

*Table 2: Representation of analysis criteria features*

Category	Marks	Grading %	Legends
Strong	2	0-50	++

Average	1	51-75	+
Weak	0	76-100	-

The analysis is based on scoring criteria, where equal weightage is assigned to the base of each sub-component. Against the maximum score, the score achieved by each factor suggesting its relevance to the subject study is assigned. The cumulative score achieved against sub-category and category shows the significance of institutional pillars on the negotiation process. This criterion is applied to analyse each case individually by conducting a within-case analysis, and subsequently, all cases are comparatively analysed by doing contrasting and comparing which will help draw the conclusion. As emphasized the importance of conducting within-case analysis to understand and examine what happened in each case before speeding up for comparative analysis (Miles, Huberman, and Saldana, 2014). The single case analysis is done in the following chapter of 'Case Study Findings', where matrices table is used to analyse with such criteria and a consolidates analysis is performed in the comparative analysis chapter. Adapted from transformation approach calculation to achieve research data objective for analytical objectives (Hair et al., 2003).

In terms of marking numerically to measure the influence, "2" maximum marks are defined for each sub-factor. The sub-factors which are considered as "weak" are

assigned 0 marks, “Average” are assigned “1” and “Strong” are assigned “2” marks. The sum of all sub-factors are added to arrive at the rating of factors and are combined to reach the score of each component. The effectiveness ranking legend was developed from matrices method (Miles and Huberman, 1994).

Accordingly, based on the scores attained by each component against the maximum score allocated, the effectiveness ranking is as follows:

“Weak” for least-effective

“Average” for moderately effective or effective to some degree/at some level

“Strong” for highly effective

The above classification is applied based on the percentage of the score attained against maximum scores, up to 50% has been treated as “weak”, from 51% to 75% has been ranked as “average” and above 75% has been regarded as “Strong”. These parameters are determined through experience gained during the case study and several interviews with the key management staff.

All the interviews were recorded and transcribed immediately by the researcher, the notes were reviewed in order to familiarize the data. Cases individually as well as comparatively in the consolidated analysis were analyzed. The influence of each institutional construct and its factors on the overall negotiation was the basis for the analysis. For example, how can regulative institutional environment influence the overall negotiation process? And how can elements of the regulative environment such

as Country law, Environmental Factors, Rules and regulation influence the overall negotiation process of Pre-negotiation, Face-to-Face negotiation, and post negotiation stages)?

To summarize the above process of analysis as guided by Dierckx de Casterle *et al.*, (2012) was extracted and modified for accordingly to undertake qualitative analysis:

- a) Each interview was audio recorded with the permission of interviewee and then carefully transcribed by the researcher.
- b) The interview excerpts from the interview transcripts were read several times until the researcher is fully familiarized with the data and aware of the flow of the interview (Braun and Clarke, 2006).
- c) Then the essence of the interview in relation to the research questions and research model was arranged in a more systematic order in the form of a narrative report. For example, a simple narrative of negotiation process involved from the first offer in the early till the deal completion (Ghuri, 2004).
- d) Conceptual schemes development from the narrative report based on solid experiences. Through sifting the concepts developed from the data were aligned with the research model developed to answer the research questions (Chowdhury, 2015; Ghauri and Firth, 2009)
- e) Recursive process of moving between within-case and across case analysis was performed to develop emerging patterns and existing theory, (Ghuri, 2004).
- f) The coding process took place by reading every line of the interview again while keeping the arranged order list of theoretical model categories at hand (Berg, 1954;

Braun and Clarke, 2006; Elliot, 2018)

- g) Codes were organized carefully while exploring all elements associated with the code. And then codes applied in these categories were framed in the conceptual model (Berg, 1954; Spiggle, 1994; Stirling, 2001).
- h) Then with the use of conceptual framework, and case analysis leads to the development of results in order to answer research questions, compare and contrast cases based on similarity and differences (Ghauri, 2004).

To conclude the strengths of analysis can be supported as follows;

- a) Avoidance of the over-reliance on computer assisted software can help in the intensive exploration of data (Hunter *et al.*, 2002). Not restricting the researcher to practice a specific protocol by depending on the software. The researcher is able to prepare, organize, extract data with their perception and different angles.
- b) The process of back and forth analysis between a case and cross-case (Sandelowski, 1995, 1996). This facilitated more in gathering richer data by exploring deeper each case and sampling unit. A second case data analysis was not initiated until the first case was complete and this reduced the risk of confusion and bias judgement during analysis (Ghauri and Firth, 2009).
- c) First hand data experience by 'sensitizing concepts' (Sandelowski, 1995). The researcher was able to make sense of data through not only restricted to theory-driven but also provide an opportunity to the researcher to grasp the relevant data.
- d) Due to the complexity of qualitative data, it has been recommended to use a combination of strategies aforementioned which motivates the researcher to collect

data, analyse, and draw conclusions (Ghauri and Firth, 2009).

#### **4.11 Interview Guide Development**

The development of an interview guide is critical for the preparation and planning of semi structured interviews. It is important for the interviewer to be aware of the key questions to be asked during the interview as well as know how and when to probe in a systematic manner to obtain the required data from the respondent. The key guiding principle or question from the researcher's perspective was "What are the fundamental ideas of the interviewee's story that may address and contribute to the research topic?"

##### **a) Negotiation Process**

Q1) The overall negotiation process comprises of three stages (Pre-negotiation, Face-to-face negotiation, and Post-negotiation). Are all stages practiced during negotiation with your counterparts?

Q2) During negotiation is there any conflict (disagreements or unfriendly atmosphere) involved between both parties?

Q3) What is the role of time and how important it is in influencing negotiation process?

Q4) What is the size of each party during negotiation process (Number of negotiators in each party)?

**b) Regulatory** - This pillar is mainly about legal purposes, laws and regulations, and



the Government's role in the face-to-face negotiation stage mainly but other stages will be covered as well.

Q1) To what extent do Saudi laws and regulations influence the negotiation process in Saudi Arabia, tax, and immigration policies influence the negotiation when negotiating in Saudi Arabia?

Q2) How can the political environment of the country where negotiation takes place influence the negotiation deal?

Q3) What is the use of contracts during the negotiation process?

Q4) On some occasion when negotiating with old suppliers who are a trustworthy party in negotiation, is the use of contracts avoided and considered as unimportant?

**c) Normative-** This element deals with ethical systems, morals and work habits of people involved in the negotiation.

Q1) How important is relationship building prior to formal negotiations and what measures are taken by each or both parties to establish a relationship?

Q2) Do negotiators from the UK value relationship building as equally important as their Saudi counterparts?

Q3) Can you provide some examples of relationship building practiced by your party or other parties? For example, what attempts were made by either party as building a relationship with their counterpart?

Q4) In your opinion is there any influence of culture that motivates negotiators in building relationships, or do parties focus on building relationships for getting the deal done?

Q5) What is the role of ethics in the negotiation process and how seriously is it taken?

Q6) Do negotiators from the other party have a different style, method, norms, and behaviour?

**d) Cognitive cultural-** These are concerned with taken for granted elements such as beliefs, religion, and time and any additional cultural elements that may appear rarely?

Q1) Can you provide some examples of cultural beliefs or values that are practiced by negotiators during negotiation?

Q2) What is the role of religion in the overall negotiations between Saudi and Western negotiators?

Q3) Some cultures value time the most and while others don't. To what extent is time taken seriously by negotiators?

Q4) At the time of deal making do negotiators demand their deliveries sooner than the expected time? For example, some parties may be willing to pay an extra amount in order to get their deliveries sooner than later?

## 5. Case Study

**Introduction:** As explained and justified the choice of using the case study research method in the methodology chapter. This chapter provides the findings extracted from the data after conducting the interviews from four cases. Each case consisting of Saudi buyer and UK supplier is signposted in the headings and gives a descriptive overview of the buyer-supplier companies involved in negotiations. It reveals the findings of the negotiation process from the data gathered and tables are used to understand the impact of institutional constructs on pre-negotiation, face-to-face negotiation, and post negotiation stages. At the end of each case, the main quotes in addition to the quotations provided throughout the chapter are revealed. Finally, each case also presents a single case analysis between buyer-supplier negotiation which will serve as a useful analytical method for comparative analysis.

### **5.1. Case 1: Panda - Savola Group (Buyer) and The CPT International (Supplier)**

This case presents findings of Panda, a subsidiary of Savola Group as a buyer which is a multinational company based in Saudi Arabia and CPT International as its supplier based in the UK. A brief overview of each company's background is provided and its involvement in buying and selling. Moreover, the findings are presented separately for each company in respect to the negotiation elements in order to understand the influence of culture on overall negotiation process. The buyer and supplier have been involved in dealings for the past seven years. The deals involve UK branded confectionary items, chocolates and many other food related products that are sold as

consumer products in Panda Hypermarkets throughout the Kingdom of Saudi Arabia.

#### 5.1.1 Overview of buyer – Panda, Savola Group

Savola is a Saudi Arabian industrial company with its strong presence in Middle East and Africa, and Turkey. Savola Retail was established in 1979 and currently operates over 498 grocery stores. The company offers its customers sugar, oil, and retail food and non-food sectors. In particular the Panda Retail Company which is heavily involved in importing food and non-food items from the UK suppliers. The negotiation in majority of cases takes place in buyer's head office which is Savola's headquarter based in Jeddah, Saudi Arabia. Without a doubt Panda is one of the leading retailers in the Kingdom of Saudi Arabia. The company is actively involved in meeting customer needs by adapting to new methods. It was the first retail company in Saudi Arabia to distribute leaflets at the customers door.

#### 5.1.2 Overview of supplier - CPT International, UK

CPT International is UK based company which was formed in 1993 and is one of the leading exporters of food, chilled frozen and non-food products. Started with a small warehouse as a family business now has become a popular UK supplier among the Arab countries. CPT International has distribution warehouses in the UK and USA. The company is involved in supplying the best of branded products from UK and US to Saudi Arabian buyers and rest of the Middle East. In this case the CPT is a UK supplier to the Panda, a Saudi buying company. The key decision makers in the company are the chairman who actively engages with the heads of buying company, the General

Manager, Business Development Manager, Sales Director.

## **Findings of Panda (Buyer)**

### **5.1.1 Regulatory Environment**

The retailer not only had to comply with the rules and regulations of the government when selling products in the market but more importantly when importing goods from the international suppliers. Implementation of VAT by the Saudi Arabian government was one of many law related aspect that was frequently discussed in negotiations with the supplier. Both parties had to work together in order to update the cost of products with VAT and negotiate with updated price. This is took happened in the early stage of negotiation and costing was discussed from pre negotiation and face to face negotiation stage.

*“Cost is the most important thing when we do negotiation as we need to know for how much we can buy the product from the supplier but with new rule of VAT everything got reshuffled as first we had to decide among ourselves how much we will sell in the market then we are able to negotiate with our suppliers the cost of purchase, so tax issue really affected everyone from supplier to buyer and consumers as well.”*, says Head of Shopper Marketing.

It was stressed that in retail industry rules and regulations imposed by government authorities influenced the dealings between buyer and supplier. The retailer sold a wide variety of imported products that ranged from food to non-food, this resulted in Panda to comply with different standards set by Saudi Food and Drug Authority (SFDA) and Saudi Authority of SASO because different categories of imported products had specific standards. In particular, the food safety and quality standards set by SFDA were on agenda during face to face negotiations with supplier and buyer exchanged a memorandum of understanding with their supplier in the early stage where both parties agreed to work and cooperate in conjunction to meet SFDA standards. This also played an important role in the post negotiation stage as buyers need to plan their future deals based on SFDA rules.

*“We have government bodies such as SFDA (Saudi Food and Drug Authority), SASO (Saudi Standards, Metrology and Quality Organization), Saudi Ministry of Trade and Commerce, and Saudi Customs that we have to register with them for importing items. And for different items there are strict requirement for organic food or gluten free products we ask supplier to provide us with certification and we have to provide this as an evidence to SFDA. There is agreement with SFDA and other government bodies that we agree to follow their regulations in future and this is why we have to make sure we negotiate with suppliers accordingly”,* says Director of Purchasing.

The political system of Saudi Arabia also had effects on both parties involved in negotiations. With new leadership in the country and with young population the government intervened and encouraged citizens with entrepreneurial measures to produce and manufacture within country in order to become less dependent on imports. The government had the tendency to impose import quotas where it sets limits on imports of certain foods that can be produced locally. This impacted the current orders with the UK supplier because the demand is affected when there are new competitors in markets sell similar imported products.

*“Lots of changes taking place in government, plus council of ministers announced new laws for businesses. So each time new head gets elected for certain body he comes with a new strategy that has implications for businesses like us. Because of this there is more competition in the market and many suppliers available that are importing branded items from UK or Europe”,* says Head of Shopper Marketing.

### **5.1.2 Normative Environment**

The key dimensions that emerged from the data for the normative construct are as follows: pressurize supplier, negotiation strategy, and contracts.

Ethics in cross-cultural negotiations where each party comes from different culture, background, and origins have a very dissimilar way of doing things. The objective of

each party is to get the deal in the most profitable way. In doing so one party may gain more than the other while one may need to compromise. The panda group being the market leader practices its authority over suppliers to get the best possible deal. *“Before the business unit heads involved in dealing with suppliers used to squeeze the suppliers leaving no room for negotiations on price because the suppliers were aware that the buyer will choose another supplier if we don’t agree to their price.”* Head of Shopper Marketing, Panda Retail Group This was the mindset of panda retail group prior to new management where the buyers used to squeeze the suppliers during face to face negotiations in order to achieve the best deal. The current strategy of Panda is to work together with the supplier in achieving the goal while both parties get satisfied.

The Panda have their own unique way of doing business with their suppliers. During pre-negotiation stage, regardless of suppliers being prospective or existing, they have to register and list their products with the panda if they want items to be sold. Similar to every retailer model the panda will take the listing fees from the suppliers *“because we consider or we take our stores as a property, it’s land and I am renting it and we measure it based on sales intensity, so sales per square meter.”* Head of Shopper Marketing, Panda retail Group. This is the way the retailer does business and the suppliers have to adapt their strategies in order to become their supplier.



One of the most mandatory practices during the overall process of business negotiation is the use of contracts. The contracts were used in every deal with every supplier of the Panda buyer to maintain the transparency, terms and conditions agreed by both parties, and all other elements such as promotional pricing, rebates, and quantity to be sold etc. Contracts were designed by both parties from the pre-negotiation stage to post negotiation stage to offer the best possible outcome for the deal and as an opportunity for both parties to share their views in relation to the terms and conditions to be included in the contract.

*“so contracts are usually drafted on the annual basis and it may include every single detail. For example with one of our old suppliers we visited their site to check new launch of products as we agreed several points to be reflected in the contract, for example, the discount cannot go higher than 40% because it could dilute the whole category so they agreed they will not sell any retailer more than that discount”.* CEO’s Office Manager.

### **5.1.3 Cognitive Cultural Environment**

The key categories for the cognitive cultural construct developed from the data were identified as: religious values, mode of thinking, and relationship building.

When cross border negotiations take place the culture plays a central role in the process. The cultural system of the host country, Saudi Arabia influences the buyer and supplier negotiations in different ways during the overall process of negotiation. The buyer being the Saudi Arabian company is familiar with their culture as it is their country and they expected the suppliers to adapt to Saudi Arabian culture. Although Saudi Arabia is currently going through a transformation process and things are becoming more flexible for foreign companies and people to do business. However, certain cultural aspects still remain intact such as religious elements and foreigners need to respect them. If a supplier is unable to meet Saudi Arabian cultural criteria, in particular, the religious values then it can stop the negotiation deal whichever stages it is at.

*“So religion is contributing to everything in our culture. If a multinational wants to have an office in holy city of Makkah and Madinah if their employees are non-muslims they can't, during the holy month of Ramadhan maximum employee working hours are limited to six hours so multinationals cannot force their employees. Religion is just one element of culture but its an important one here”, Director of Business Unit Head.*

It was also discovered that UK supplier preferred doing business their way during face to face negotiations as they come with their social schemas of how they wanted their products to be positioned, labelled, and sold. Often, multinationals have a perception that because they are big and can run business their way. This is where negotiation get

complicated and either result in the failure of the deal or both parties get together and work on adaptation.

*“So we deal with multinational suppliers not only from the UK but the USA, China, Middle East, Turkey and by the way these companies bring their models and we help them to implement it here with local touch as it has to be localized. For example what works in your country most probably won’t work here”* Head of Shopper Marketing.

Most of UK based suppliers offices are in Saudi Arabia and in majority of cases the formal negotiations took place in Saudi Arabia. This indicated that the UK supplier need to establish and maintain good relationship with the buyer. Panda prides itself being the leading retailer in the Saudi Arabia and maintains high esteems and values. *“with our new leadership and management we have strict policies to treat suppliers fairly and in return we expect the same. We aim to achieve a win-win situation with suppliers by working together but if we notice we can’t trust them or they are not interested in building relation with us then it is a big NO. If we find something unfriendly and uncooperative behavior from the suppliers we stop dealing with them and go for their competitors instead to teach them a lesson”*, says the CEO’s Office Manager. This explains the concept of establishing trust is central during overall negotiation process for the Saudi buyers.

#### **5.1.4 Findings of CPT International - UK Supplier**

##### **5.1.6 Regulatory Environment**

The supplier constantly had to monitor any changes in Saudi Arabian laws and regulations and negotiate with buying party based on government rules and regulations. Both parties repeatedly communicated to create awareness about the changes in rules and regulations, and its consequences on the deal. In the majority of cases, it was the buyer side that kept suppliers informed about the changes issued by the Saudi authorities and instructed the supplier to comply accordingly. During face to face negotiations the prospective purchase orders of additional branded products were negotiated and when rules and regulations were updated it had a direct impact on negotiation deal during face to face negotiations.

*“The SFDA rules and regulations are essential as most of our dealing with our buyer is based on this, during negotiation we first review any issues related to logistics of products because what is the point of negotiating if we find out there is something in the product which cannot be imported. There are new initiative by government SFDA in collaboration with Ministry of health to reduce excessive sugar level in certain chocolates like Mars brand and salt in branded crisps and salted nuts, and all products must label nutritional values clearly in Arabic along with date of production and expiry for customer information.”*, says General Manager.

There were also some general guidelines set by SFDA and Gulf Cooperation Council regarding lawful ingredients that were in compliance with Shariah law. There were very stringent laws pertaining to meat and poultry products, however for confectionary items too there was potential risk of containing ingredients that did not comply with SFDA. These formalities were raised during face to face negotiations prior to finalizing the deal.

*“We have to ensure none of the products we export to Kingdom consist of alcohol, or prohibited ingredients such as gelatin or animal fat of pork in sweets or jellies, some sweets jelly sweets brands like Haribo, skittles, and Nerds contain gelatin that is not acceptable in all Arab countries hence these brands have Halal version that we have to label and supply. These things are complicated and we have to be extremely careful because once were in the process of exporting newly introduced balsamic vinegar which contained alcohol but fortunately we found out and had to cancel the order”,* says General Manager

The political environment of Saudi Arabia played a key role in securing the deals and continuing the business with UK based suppliers. It was found that change in Saudi Arabia's political stability can affect the current negotiations and as a result UK suppliers had to be prepared for the worst case scenario. CPT General Manager commented

*“For example, the Saudi ban on Canadian products. If the government imposes something we have to respect and follow. And many suppliers don’t want to enter in an environment where there are protests and war taking place like Yemen, Syria, and Lebanon where we used to supply in the past and have stopped now but for Saudi Arabia we don’t see any issue apart from ongoing war with Yemen but business seems usual and we have our contingency plan.”*

#### **5.1.7 Normative Environment**

It was emphasized that building relationship during informal and formal stages of negotiations was quintessential with Saudi buyers. Particularly because it was part of buying party’s business culture and relationship building assisted in securing higher chances of establishing trust.

*“I would say it is crucial in the Saudi business dealings case. It is extremely crucial, very much if you don’t have a relationship or trust established when doing business with them then there is no point, there is nothing happening. I think it’s important everywhere but Middle East, particularly in Saudi Arabia its more important than any other market. So for any negotiations relationship and trust is crucial and most important thing”,* says General Manager.

Unethical practices during pre-negotiation and face to face negotiation stages were categorized as false promises, gift exchange, and impolite behavior. The supplier side being from UK were not comfortable with exchanging gifts with their counterpart in the pre negotiation stage. It was important to keep buyers happy as it facilitated in maintaining and strengthening relations, and also acted as a leverage during face to face negotiation to make other party accept our demands to some extent.

*“I mean I wouldn’t say everything is transparent during negotiation because buyers are in better position as they have the privilege to cherry pick the suppliers as there is no scarcity of distributors in the market. So somehow we have to secure our deal by keeping them sweet and in good terms because in Saudi market just saying thank you is not enough.”*, says General Manager.

UK suppliers stressed that it was important to involve contracts in every stage of negotiations when dealing with their Saudi buyer. Depending on the type of deal and products there were detailed contracts exchanged during the whole negotiation process. In this case, the contract was discussed during pre-negotiation and then drafted by the supplier to be exchanged during face to face negotiation stage.

*“There is always at least a basic contract with simple terms such as price, time, quantity and other terms in every case because its key to agreeing terms in business regardless because it has key details, information, facts in writing so everything is clear to*

*everyone from day one rather than having nothing on paper and everyone just assuming things.” Says General Manager.*

#### **5.1.8 Cognitive Cultural Environment**

There were many effects of cultural differences because the mindset and perception about buying party were not compatible with that or western culture and style of doing negotiation. Every cultural aspect from as little as way of communicating to the complexion of negotiator mattered when dealing with Saudi negotiators in pre-negotiation stage. The General Manager told;

*“Their culture is different to rest of the world in my opinion. I am not being racist but the color also matters to impress them. For example, an Arab or Indian negotiator comes to sell them UK branded product they would prefer him less compared to a white English sales person even if his products are not of best brands. The more you let your buyer feel they are superior and correct even if they are wrong during negotiation would increase your chances of winning. The sole decision maker is their head during negotiation so he needs to be happy with you despite if other negotiators in his party favour the deal and if he is not satisfied then there is no deal. Its entirely a different world out there.”*

Religious values also had influence on the face to face negotiation as many of regulations were derived from the Shariah law in Saudi Arabia and were discussed between both parties. The concept of halal food and prohibition of alcohol as well as



many other elements had effect and these were clarified between both parties throughout the complete negotiation process. Moreover, for non-food items such as furniture, health and beauty, and household goods there were certain restrictions associated with religion that impacted the export procedure.

*“There are specific restrictions set by the Saudi government for imported items restricting sex appealing or any immodest pictures printed on the packaging of an item and use of Hebrew and other languages which are banned in the kingdom, also halal certification for food products which contained animal ingredients is very important. We are constantly instructed by our buyers to omit the content which has prohibited pictures any controversial message before sending otherwise Saudi Customs hold our delivery”,* says Managing Director.

Trust was highly valued and perceived as a key factor in securing deals. However, the role of time was also regarded as an important factor that influenced the overall negotiation process. The more time the supplier dedicated to buyers then the buying party believed they could trust them. During the pre-negotiation stage, the buyer assessed how keen the supplier is in doing business with them and tested their patience level. This was tested when buying side repeatedly postponed the arranged meetings. This was their tactic to test the patience and behaviour of the other party.

*“We know we have to adapt to their way and we can’t simply say a big NO and risk ending the deal if they want delivery earlier than usual time, we have to compromise and look for alternatives like sending by air freight instead of by sea, so we have to be more realistic. Our chairman spent years to establish trust and relations with their director by travelling, attending events, and working together, so time is like an investment and trust is not established just negotiating few deals.”*, says General Manager.

### **Key Thematic Findings of Regulatory, Normative, and Cognitive Culture Constructs**

The analysis of the data allowed the identification of the following thematic categories for the regulatory construct:

rules and regulations of the Saudi Authorities; the influence of the religious value in accordance with Shariah Law implemented by the Gulf Cooperation Council of Arab countries,

political system: Saudi Arabia’s political system emerged as an important theme that influenced the buying company’s overall negotiation strategy

government bodies: The implementation of VAT by the country rules of regulation from Saudi Arabian Tax and zakat authority was a key dimension that influenced the costing during negotiation. The rules and regulations set by Saudi government bodies enabled

the buyer to assess the food safety and quality standards which was important to observe during the post negotiation stage. The main findings can be supported by the main concept of Saudi Arabian government bodies imposing sugar tax as the new form of rules and regulations in the food sector. The government bodies, country laws, and rules and regulation can act as enforcing force for businesses (Gaur, Delios and Singh, 2007). However, the new concepts developed can be identified as more price bargaining between buyer-supplier negotiation due to hike in prices by the government.

The key themes emerged from the data for the Normative construct can be categorized as:

Relationship building in negotiation; gaining buyer's trust, gift sharing to please counterparts, corruption practices for securing the deal easy way, and obligatory practice of contractual agreements.

Ethics in negotiation; unethical approach of buyer's negotiation tactics was to pressurize the supplier to agree to buying company's demanded price and terms and conditions. The business model of the buying company was to charge their suppliers listing fees which shaped the negotiation strategy as the suppliers had to adopt to buying company's norms when doing business, and exaggeration and flattery not to be taken for granted to impress buyers. This is how differences in established ways of doing things is perceived in the international business negotiation literature (Kumar and 2011).

Contracts in negotiation; The use of contracts influenced the buyer-supplier overall negotiation process, and raised the discounts and rebates related terms during the formal stage of negotiation. Roxenhall and Ghauri (2004) identify how contracts are used based on the trust and relationship established between parties involved in negotiation.

The main themes pertaining to cognitive cultural dimension can be identified as:, Religious values; influence the sales of permitted halal food items, and trust is

Trust: it is established based on how old the relation between buyer-supplier is, and spending extra time with the counterpart's head, this can be supported with the literature on the significance of relationship building in international business negotiations (Rohenhall & Ghauri, 2004).

Religious Values; religion was a key highlight of cognitive culture construct as it influenced the negotiation process significantly and also had the tendency to restrict the entry of non-Muslim negotiators in holy sites where the buying company had stores. Mode of thinking theme also emerged from cultural differences, style of negotiator, and differences in the established way of doing things. Ultimately, the concept of relationship building was a key categorization from the cognitive culture construct data analysis, strong ties between negotiators also led to the establishment of trust.

The religious values can be supported with the evidence of (Bachkirov and AlAbri, 2016) in their findings suggested that mode of thinking of Arab Muslim negotiators was influenced by the Islamic values.

### 5.1.9 Buyer-Supplier Overall Negotiation Process Findings

#### Pre negotiation

The overall negotiation process commenced with the initial informal stage. In this stage the negotiators from both parties got involved in a very informal negotiation. This included casual meetings, informal queries about the new range of products. However, in case of existing supplier, both parties have a meeting couple of months in advance for preparation.

*“Our suppliers they come to us first and then pay listing fees in advance for the Stock Keeping Units (SKUs), then they start negotiation on the price, promotional offers price, and the contract”* Head of Shopper Marketing, Panda.

*“...Initially when you are looking to deal with buyers, then trust is important by meeting them face-to-face so you know what person thinks and how they do business by going to their office, meeting them”,* General Manager CPT International

Furthermore, on certain occasions the supplier invited the buyer to their headquarters to show them the potential new range. In this case both parties have an informal

negotiation about how they will proceed. *“So we visited supplier’s headquarters in Birmingham last month to check their new range and agree on the pricing, delivery, and quantity terms”* CEO’s Office Manager.

### Face-to-Face Negotiation

During the formal stage of negotiation the size of buying party comprised of larger group between seven to ten negotiators and supplier side had up to three members and there was no need for any translator. This was the central stage of negotiation process and certainly the most important because all important areas of the deals were discussed and during this stage it was decided if the deal goes ahead.

*“It would be after initial meetings we sit on table with buyers and discuss all important elements and clarify them before finalizing the deal. this is where our chairman also negotiates key areas and we as a team negotiate with other party and compromise on things that are not in our agenda”* General Manager CPT International.

### Post negotiation

In most negotiations the outcome of the deals was successful and contracts were renewed for further orders and there was no case where the deal got cancelled. However, it was usual that both parties were involved in renegotiation as an alternate

to no deal, in most cases, the supplier provided alternative options and compromised with the buyer.

*“I don’t recall any deal that was cancelled except the items like balsamic vinegar that contained prohibited ingredient so we supplied a different brand which went well and deal was completed. Many times the buyer sends us list of products they require and we work for exporting those items and this is how things happen. Our chairman works on renewing the yearly contract with their director.”* General Manager CPT International.

*“After the negotiation is done there is a lot happening such as discrepancies in the order or damaged goods so we get back to our suppliers and refer to the terms agreed on the contract for deducting payments and sometimes this gives us chance to negotiate better price at the time of renewing contract because of suppliers we had to suffer.”* Head of Shopper Marketing, Panda.

*“After lengthy negotiations with our UK suppliers the majority of them are successful, we might have disagreements during negotiation but they are all settled. As usually with International suppliers deals are OK ”.* CEO’s Office Manager, Panda.

Table 3: Main Quotes from the Interview between Panda (Buyer) & CPT International (Supplier)

Saudi Buyer Panda
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The Saudi law is very important in whatever we deal with, we cannot go against it not only when importing products from UK but also domestic advertising and Marketing related activities. CEO Office Manager

The key thing during actual negotiation is to take something when you are giving other party something. Its like do me a favour because I have done a favour for you.

Head of Shopper Marketing

We don't like you to dictate terms and conditions when preparing a contract or being told how to do things. This is our country we know the market and culture better than you. Head of Shopper Marketing

UK Supplier CPT Int.

Building relationship is like the backbone of negotiations and its extremely crucial.

General Manager

Disagreements are always based on price with buyers. Chairman

So what if there is trust. Contract has to be there. Trust has its own place and contract has its own place. Chairman



Table 4: Overall Negotiation process between Panda and CPT International

<b>Institutional Impact</b>	<b>Pre-Negotiation</b>	<b>Face-to-face Negotiation</b>	<b>Post Negotiation</b>
<b>Regulatory Dimension</b>	<b>Strong</b>	<b>Strong</b>	<b>Weak</b>
Law	++	+	-
Environment	+	+	-
Regulation and policy	++	++	-
<b>Normative Dimension</b>	<b>Strong</b>	<b>Strong</b>	<b>Average</b>
Ethics	++	+	+
Relationship Building	++	++	+
Contract	++	++	-
<b>Cognitive Dimension</b>	<b>Average</b>	<b>Average</b>	<b>Weak</b>
Cultural system	++	+	-
Beliefs	-	+	+
Values	+	++	-
<b>Aggregate Evaluation</b>	<b>Strong</b>	<b>Strong</b>	<b>Weak</b>

**++ Strong**

**+ Average**

**- Weak**

#### 5.1.10 Case Analysis

The above table illustrates the overall influence of the institutional environment that impacted the buyer and supplier individually. The regulatory component was high for Panda and CPT as they had to register with several government authorities prior to any deal. The normative environment for buying company was regarded as average and high for the supplier. Whereas the cognitive cultural dimension was placed as average for the buyer and weak for the supplier.

Analyzing the influence of regulatory environment between both parties, the regulatory elements had reasonable influence on the pre negotiation and face-to-face negotiation stages, served as weak in the post-negotiation stage. *“...it’s our company’s policy that we have to follow due diligence procedure with our supplier to check if they are registered with Saudi Authorities before doing any business with them.”*, Panda CEO’s Office Manager. This ensured Panda the supplier they were dealing with adhered to the country’s law and registered with Saudi authorities. In the formal negotiation stage, the topic of rules and regulations was frequently used as an opening remark prior to moving into more specific details like price, time, and quantity. *“The legal aspects of the deal are discussed and applied from the beginning of the negotiation until the contracts are finalized and the deal is sealed, during this, we also clarify with our buyer the changes in regulation and its impacts on new products”*, Business Development Manager, CPT. However, in the post negotiation stage, the regulatory dimension lacked influence because all regulatory formalities were dealt in the initial stages of negotiations and this stage was more concerned about the outcome of the deal and

further response between both parties. The environment factor mainly dealt with the political stability of the country, in this case, there was little risk of events like gulf crisis including war, country boycott, and terrorism that could impact the trade activities. *“There is always a risk associated with this business but Saudi Arabia is a stable country in the Gulf and in worst case scenario we have our plan to withdraw business from there”*, Chairman CPT.

Normative component of institutional environment appeared to have a strong overall influence on all stages of the negotiation process. Relationship building happened to be the most influential concept throughout the negotiation process as it was highly valued by both parties. In the pre-negotiation stage, the CPT’s priority was to secure the deal with the Panda by establishing strong relations which included the friendly conversations and reaffirming commitments that they were able to meet Panda’s demands. During face-to-face negotiations, Panda exercised buying power by placing greater demands for larger quantity, price discounts, and early goods delivery. CPT as a supplier avoided any conflict escalation and compromised buyer demands with realistic alternatives and best options for Panda. *“....Instead of saying No and increasing the chances of conflict and risk of losing the deal the best strategy is to listen, compromise and offer best alternate option, this also shows our commitment to work with them also shows them we care about doing business with them. For example, if they want price reduction as well as early delivery then we could offer them early delivery but not much discount on price this way we maintain our profit margin.”* General

Manager, CPT. Both parties have a common interest where Panda wanted purchase order as per their discounted price and CPT's priority was to secure the deal as well as the future deals by retaining strong relations with Panda. In the post negotiation stage, following the success of deal, the buying party were invited to the business premises of the supplier to show the new product lines and potential deals.

Issues related to ethics were average influence throughout the negotiation process where supplier faced difficulty in securing the deal at the early stage of negotiation with Panda. The supplier side negotiators exercised buying influence by shortlisting potential suppliers in the market and choosing the one they received personal favours and benefits on a personal basis. *"Prior to getting the deal officially on the table, we would have to convince the important guy at the buying side by keeping him happy and meet by giving him some gifts, chocolates and other confectionary which seems like sample but is not. By doing so he would favour us over other supplier and arrange the deal"* Business development Manager, CPT. During the formal stage of negotiation, the Panda side would pressurize and make the most out of the suppliers by dictating unreasonable offers and negotiating a price that leaves supplier with low-profit margin. *"We are the market leader and have huge market share in the market and we dictate them the purchase price so they should listen to our price and agree what we offer them because at the end of the day they are getting to sell their products in our stores"*, Head of Shopper Marketing Panda. Unethical practice such as bribery giving and receiving threats from the supplier also influenced the post negotiation stage. When there were

cases of minor delays caused due to uncontrollable factors such as customs clearance the supplier took advantage of this position and threatened to not renew the annual contract. In addition, the supplier was involved in giving bribery to government officials at the Saudi Customs Authority for swift clearance of the goods.

*“it is our responsibility to deliver the order to buyers and delivery can be delayed for many reasons from weather conditions to even delays at the Saudi customs when they hold the container for inspection of goods to check if they meet all labeling criteria and products are permitted and also many times there is no reason to hold but receive bribery or something else that they prefer.”*, Chairman CPT.

The use of contracts had a strong influence in the informal and formal stages of negotiation because contracts were constantly referred by both parties involving back and forth process for making amendments in the terms. In this case, contractual agreements were drafted on annual terms and it was exchanged by both parties from the beginning. For instance, because both parties had longstanding relations and trust established between the top management, hence certain deals were done by the top management and then the exchange of contracts along with negotiation took place between both parties. *“In this deal let’s say I just informed the head of Panda that I have the order ready of this product which I discussed with him earlier, and he says yes let us go ahead this means the deal took place, so my team prepares the contract and negotiate with their team for key bits like pricing, quantity, and terms. So the main thing is an actual contract, and trust has its own place and contract has its separate place.”*, Chairman, CPT. In post negotiation the contracts are revisited by both parties

when the buyer ordered excessive quantity and the order has not been sold in this case  
“...we sit and renegotiate with our supplier to find a solution otherwise amend the terms  
in an existing contract of not sending additional batch, so the contracts are flexible and  
can always be changed between us as we have been dealing for long time” Category  
Manager, Panda.

The influence of culture was in descending order from strong, average to weak in all three stages of negotiation respectively. The cultural differences and trust elements played an important role influencing the pre-negotiation stage, where Panda assessed the CPT's compatibility and flexibility for working together. The assessment mainly involved cultural awareness and adaptation by CPT in order to deal with Panda. In the formal stage of negotiation, cultural impact was average as the supplying party adjusted to the Saudi cultural values of buying party by observing respect for hierarchy in Panda's team. For example, the Business Development Manager did not engage or interrupt the director of Panda, as it was their style only top management would speak to the head of other party. The religious values of Islam influenced the formal stage of negotiation as it had to adhere to halal products and ingredients, as well as the prohibition of controversial message on the packaging that signifies any negative implication on Islamic teachings were discussed and observed by both parties. *“We live with religion and especially in Saudi Arabia, everything is surrounded by Islam during prayer time we don't do business and let me give you an example that a non-Muslim is not permitted to visit holy sites of Makkah and Madinah if negotiations were to take*

*place there*”, CEO Office Manager – Panda. Therefore the religious value had some influence on the negotiation process including post negotiation where Saudi Customs Authority have inspection of products that meet necessary standards set by SFDA in conjunction to Islamic rulings.

There is an overarching relation between the components of institutional environment that influence the negotiation process. Looking at country laws, and rules and regulation are related to the contract because large part of terms and conditions drafted in contract were in conjunction with regulatory bodies such as SFDA. Moreover, ethical element of normative component had interrelation with rules and regulation of regulatory component. This was because both parties had zero tolerance policies for the practice of unethical behavior and the concept of bribery was against the Saudi Arabian Law. In addition the relationship building element of Normative component had influence on the trust element of cognitive component since relationship building was part of Saudi Arabian culture and widely practiced in negotiations and it led to establishment of trust between both parties. Ultimately, the religious values had influence on the country laws and rules and regulations as most of restriction on product import were established on the basis of religion.

## **5.2 Case 2: SAWACO (Buyer) & John Crane - A Smiths Company Supplier (Supplier)**

### **Overview of Buyer (SAWACO)**

SAWACO is a Saudi Arabian based water desalination company which is involved in supplying un-bottled water for the Middle East and North Africa. In particular, SAWACO is the leading water supplier in the Kingdom of Saudi Arabia to different industries; Hotels and resorts, farms and zoos, hospitals, villas and residential compounds. The company has four main water desalination plants based in the city of Jeddah, Saudi Arabia. To meet the high-quality water demand the company is involved in buying machinery and equipment, water servicing and research and development from suppliers from the UK, Europe and the Americas. One of their main UK supplier from the UK is the John Crane- A Smiths Group. SAWACO as a buyer is involved in buying specialized machinery and equipment for the water desalination purpose from their UK supplier John Crane. Both companies have been involved in buying and selling since 2015.

The key decision-makers in SAWACO are the General Manager who was responsible for all negotiation dealings with suppliers and other important activities within the company, Purchasing Director, and Operations Officer.

#### Overview of Supplier (John Crane- A Smiths Group)

John Crane is a UK based multinational conglomerate involved in different industries from water treatment to Aerospace systems. The company is considered as a market leader in providing solutions to various industries; water treatment; oil and gas, pharmaceutical, pulp and paper, turbomachinery, and chemical. Moreover, John Crane has over 200 sales and customer service facilities across the globe and is involved in



designing and manufacturing, variety of products including, water filtration, couplings, and seals systems. In this case, John crane is involved in supplying SAWACO water treatment machinery solutions and machinery, couplings and seals for water pumps, and servicing of water plants. The key personnel involved in negotiation dealings with their Saudi buying company SAWACO are the Sales Director, Finance Controller, and Compliance Head.

## **Case 2 Findings of SAWACO (Buyer)**

### **5.2.1 Regulatory Environment**

The legal aspect when it comes to importing water desalination machinery or spare parts from the suppliers, it is crucial to take into account that SAWACO not only abided by the regulations set by Saudi government but also met quality standards set by international body. Hence it was obligatory for the company to pass several inspection and quality control tests by national and international bodies in order to obtain certification. This may impact from starting any formal negotiations with UK suppliers and also affect the existing deals unless license is obtained.

*“When it comes to water safety we can’t take things for granted otherwise risk losing business license and face extremely high penalties. So in any case we must ensure that we have passed the safety and quality inspection test by Saudi ARAMCO Environmental Health monitoring of approved food and water suppliers and SGS*

*Systems certificate for example Hazard Analysis and Critical Control Point (HACCP), ” says General manager of SAWACO.*

As per operations officer, the company constantly had to comply according to standards set by different international bodies. This was the case even after the dealing is over with the suppliers. SAWACO is involved in different water desalination processes and each category requires specific technique and machinery. For seawater desalination the process of Sea Water Reverse Osmosis technology is used to produce high standard water suitable for drinking. *“Water desalination is not an easy process. Even with non-drinking water which is desalinated from sea water has at least twelve water types and each has different TDS value and PH level with no chlorine or high chlorine. And of course, the process involves lots of stages and requires different machinery as well as technology as after a certain period of time technology gets better to make things better and increase productivity”*, says Operations officer.

It can be argued that the regulatory elements such as government bodies policies as well as the political environment of the country plays significant role in dealing with suppliers that can affect the complete negotiation process. For example the role of political environment also affects the dealings when there is a change in leadership or royal decrees issued replacing key ministers of bodies. *“... Saudi Arabia is governed by monarchy and the rules are strict and subject to change based on many reasons. Recently you can experience there has been big social and economic change where VAT has been introduced on every business and Saudization has kicked in so we have no choice but to recruit certain amount of Saudi people in departments by replacing*

*existing experienced staff. All this affects dealing with our supplier as we have to negotiate price because of VAT and other fees by Ministry of Labor,” Says Purchasing Director.*

### **5.2.2 Normative Environment**

The unethical practice by supplier during the pre and face to face negotiation stages is an issue that SAWACO have been dealing with frequently. The concept of lies and false promises, was a frequent problem faced by their counterpart. During pre-negotiation stage when SAWACO inquire about certain new equipment the response received from their counterparts was not reasonable. Moreover, during formal negotiations, at the time of introducing new machinery or equipment the other side provided higher prices, which resulted delay in getting the deal. *“Whenever we request to upgrade our machinery or purchase new pumps the suppliers take advantage of this and offer us significantly higher quote trying to force us to accept the offer. They think they are the leaders in the market because of their reputation and can charge whatever to buyers and force them to accept the offer instantly otherwise threat us by saying we will withdraw the deal. They hardly give any opportunity to negotiate the price and keep pressing us thinking they will be out of stock due to high demand which is not very ethical considering we are their old customers,”* says Operations Officer.

There was a strict code of conduct practiced within company which maintained ethical behavior among the SAWACO employees. The company practiced zero tolerance when it came to verbal abuse, gift sharing, providing more than required information to

any suppliers outside office premises, and partiality with suppliers for getting the deal accepted. This was normally practiced between pre negotiation and face to face negotiation stages. *“... On many occasions the supplier approaches one of our team members by phone outside office hours and convince us to make the deal possible for them and they will offer us some sort of incentives. And in other cases when we show reluctance they keep repeating their offer till we lose our temper and say something to them which gives them a chance to complain against us to our head as they know our company policy is very strict. So we have to be very diplomatic and maintain honesty at all cost”*, says Operations Officer

Relationship building played a vital role not only limited to negotiations but all other business activities. Though building strong relations and good rapport with suppliers during the pre-negotiation stage the buying company got acquainted with other companies. Furthermore, trust was established by maintaining good relations with suppliers which enabled successful overall negotiation process. The buying company placed a great deal of importance when it came to relationship building from pre negotiation to post negotiation stage with their suppliers. Furthermore, buying company always took initiatives for building and maintaining relationship with their counterparts. In other words, role of relationship in negotiation was proven to be a key element for successful negotiations. *“We value the concept of good relationship with all our suppliers and without knowing other parties well we don't prefer doing business. Our line of business is unique where it goes beyond just buying and selling because water*

*treatment is a specialized treatment and requires skills of many people. For example, we just buy water pump from our supplier and it doesn't work or requires upgrade then we need to communicate and work together with our suppliers to solve the problem is most feasible manner. This can only be achieved by establishing good terms and relations with the other side",* says General Manager .

Some of the measures SAWACO took for building strong relations with their supplier included are trips to water desalination plants in different regions, as well as an overview of new water plants in progress, fishing and desert safari trips on weekend to express hospitality, also to help with any other practical issues that included visa application or renewal of visiting engineers, transportation and accommodation. This was practiced prior to formal negotiations in pre negotiation stage and also post negotiations following the successful completion of the deal. *"Our owner takes pride in expressing Saudi hospitality and values treating suppliers with best possible way. For us suppliers visiting us are important and we want them to feel the friendly environment and so we can trust and work together rather than just signing a single deal. So we do whatever we can to make them feel comfortable",* says General Manager.

The concept of exchanging contracts during negotiation was regarded as a mandatory practice. It was found that contracts revolved around the negotiation process when dealing with suppliers. In almost every stage of negotiation process the topic related

contract was raised or it had something to do with contracts when preparing terms, price, and delivery. For instance, the provisional terms and conditions to be entailed in contract are listed and discussed among other departmental heads within company in the pre negotiation stage, then it was brought on the table during formal negotiation stage with the suppliers, and ultimately amended prior to final stage of negotiation. *“The use of contract is obligatory and is in best interest of both parties as it gives feeling of security and satisfaction. For us contract works as affidavit of agreed mutual points between both parties where all important details are stated before moving forward and it helps to avoid any confusion or disagreement during the deal”* Purchase Director.

### **5.2.3 Cognitive Environment**

It was evident that cultural elements such as communication, and values of the buying company influenced the overall negotiation process. There was power distribution in face to face negotiations as the top hierarchy management had more freedom in opening negotiation, discussing various topics and sealing the deal when it came to post negotiation. *“Our way of dealing is different in many ways because each person in our team is responsible for particular topic during negotiations and we leave the pricing part for last stage, which suppliers are not used to it and only our top management deals with pricing area. So we let our General manager start the talking bit, when he indicates one of us to bring the topic of, let’s say machinery or quantity then I present my part. So we have a protocol only top management does the main dealing or decision making whereas other department heads can advise and suggest top management but can’t decide”* Purchase Director

Trust played important role in the pre negotiation stage of the deal in which the buyer assessed the credibility and trustworthiness of the supplier. *“of course we have to be careful who we are dealing with and do our due diligence with our suppliers to check if they can commit to our deal or meet our standards, so we have to do all reference check where our team does some research on their reputation in market, lets say ranking and how long they have been dealing with. But in most cases our suppliers are multi nationals or even market leaders so we can rely on them. The trust issue is very important when we are negotiating a new deal with any new supplier for the first time,*” Says Operations Officer.

The religious beliefs had influence during the face to face negotiation stage between both parties. It was mainly because country’s religious setting and company’s internal policy to observe prayers. *“Saudi Arabia is known for its religious place in the world for having the two holiest mosques Mecca and Medina, and Islamic environment is practiced everywhere. So when it comes to anything related to Islam everyone has to respect. For example, during the holy month of Ramadhan the office working hours are reduced and most of our staff observes the fast. So we try not to carry any negotiations in our office except if its extremely important. Also, the religious values are practiced in all of our branches so at the time of Zuhr and Asr prayers we stop working and pray in Ja’mah together, this has always been lie this. So if we are in the middle of dealing with our suppliers we ask them to excuse for prayers and they respect this too.”* Operations Officer.

The role of time also had influence on the negotiation process. In certain areas such as face to face negotiation stage the buyers were not that time sensitive. However, it was found that when it came to purchase order the buyers resisted patience to receive the order, engineers, and samples. *“We are very specific with our order delivery timing. Our top management discusses the arrival time of order during negotiation with suppliers and we have an agreed time. Many times there were some delays from suppliers side with delivering items on agreed time so we had to charge them extra that we had agreed in contract. This is because of their delay we suffer with our water production and installation so time is very critical when it comes to water business”* Operations Officer.

### **5.3 John Crane (Supplier) Findings**

#### **5.3.1 Regulatory**

John Crane is involved in supplying specialised water pump machines, variety of water seals including slurry and bellow seals, and couplings. There are many factors taken into consideration prior to exporting as these are specialized machinery and equipment that are supplied to meet the requirements of the buyer and discussed in the face-to-face negotiation stage with the buying company. It is the supplier’s responsibility to ensure before exporting goods that they meet the quality, safety standards within the water treatment industry as well as the relevant government bodies of UK and Saudi Arabia.



*“Legal matters are always a top concern for John Crane as the company cannot afford any negative backlash. We make sure our engineering team and consultants review all the order whether they comply with Saudi market before exporting. The price quote we prepare for them includes all costs affiliated with local regulatory requirement, ” Says the Finance Controller.*

The economic and political environment of the country can impact the overall negotiation process. For example the fluctuation inflation rate can affect the pricing, changes in laws and political condition can also affect the face to face negotiations. *“Well the UK politics are going through some unprecedented changes like Brexit and also the decline in sterling, and the inflationary rate in the UK or the increase in the prices of raw materials from our suppliers. Of course we have everything reviewed from insurance of goods, to packing list, trust receipt, specification sheet and contracts. Certain countries hold risk of doing business due to political instability there such as Yemen or Syria but with Saudi Arabia’s political condition is not considered as hinderance for us to do any business negotiations there” Sales Director.*

The company practiced strict policy when fulfilling the legal formalities in both markets. There was a chain of command between sales, finance and compliance departments before proceeding to the next stage of negotiation from the pre negotiation stage. The compliance department of the company played an important role in screening and raising any legal issues that may arise in the UK and Saudi Arabia.

*“So once the sales head reaches the Finance head and they work out the numbers then they involve compliance department to assess the legal aspects that we need to fulfil in the UK such as registering with the UK export department for license and other practical issues related to logistics. Also to study the Saudi customs and policies listed by government bodies it is our company’s policy that once all relevant departments agree and confirm then the contract is prepared to move forward” Says Compliance Head.*

### **5.3.2 Normative Environment**

The John Crane company is globally recognized as one of the leading suppliers of different industries related products and services as a leader in different industries. For every department there are different set of rules and policies team required to maintain which included honesty, anonymity and confidentiality of suppliers, pricing strategies and other sensitive information during the face to face negotiation stage. The company values its reputation and treats sensitive information sharing as a threat and strives to combat any corruption. *“...we have ethical guidelines as per our internal policies that we have to adhere to when negotiating with customers. This is taken very seriously and all members involved in negotiations are provided training on what the ethical guidelines are and how they are to be applied when involved in cross border negotiations”, Sales Director.*

The preparation of contract in the pre-negotiation stage prior to the formal negotiation was regarded as crucial practice as it draws attention to any drawbacks, clauses, unforeseen circumstances related factors. On the other hand, it also facilitated in understanding the priorities of each other which helped in avoiding any disagreement at the time of face to face negotiation stage. *“Yes, contracts are drafted and exchanged with our customers during negotiation. We exchange negotiate and exchange contracts on the basis of stated terms and conditions listed in the contract by other party and they do the same. Only when both parties agree to each other’s terms and are satisfied then only the contracts are finalized and signed. Hence contract has an important place in negotiation”*, Compliance Head

Saudi counterpart valued the concept of building relation equally important to the deal. Prior to the negotiations, in the pre negotiation stage with the buyers, the supplying company was made aware about the Saudi culture and expressed importance of relationship building with their counterpart. *“we usually don’t give much importance to building relations when negotiating with our national or western customers but with our Middle Eastern customers, in particular, Saudi Arabia is a huge country with great potential so we have to adapt our way of negotiation according to their preference so we can negotiate successfully. So we try to reciprocate the practice of maintaining relations by taking some extra measure to let them feel that we value and care doing business with them.”*, Sales Director.

### 5.3.3 Cognitive Cultural Environment

There were few cultural elements that impacted the negotiation process such as cultural system, time sensitivity, and communication. The supplying company at times found difficult to deal with their Saudi counterpart due to their conservative cultural values. To some extent this included the religious holidays of Eid and reluctance of engaging productively during the month of Ramadan resulted in slow progress. However, it had no direct practical effect on negotiation outcome. *“We respect all religious values and understand due to religious holidays there may be some delays in business activities but rarely does the religion influence the negotiation dealings”*, Finance Controller.

There were some issues related to time sensitivity when dealing with Saudi counterparts. Often, the buying party paid less attention to time during formal negotiation, as they took their time in sending their terms and conditions to us. Moreover, on table during face to face negotiation stage they bring up topics outside business dealings related to travelling and sports. Moreover, they leave to negotiate the price of products at the very end which stretched the negotiation time longer as both parties then bargain on pricing. This gave the impression that the other party exercised more power in the face to face negotiation stage since it took place in their country and it was a cultural practice.

*“For us we have a very busy schedule selling our products to other customers and for us time is precious. We appreciate their hospitality and friendly topics but at the end of*

*the day we are here to get the job done and we expect important topics like costing to be brought up first to avoid delays” Sales Director.*

Establishment of trust from supplier’s perspective was significant because it assisted them to negotiate easily for future deals and build longstanding relation with the buyer. The suppliers felt the presence of trust during face to face negotiations facilitated in conflict avoidance and promoted friendly atmosphere. Moreover, in the post negotiation stage supplier was able to secure future deal without any complications because of trust.

*“Its crucial that we win our buyer’s trust so that we can negotiate our terms accordingly and it also helps us to retain our customers for future orders. If they trust us they will be more inclined to re-order from us rather than any other supplier. So absolutely, trust is important in our line of business for example we even have TR (Trust Receipts) in our deals so when the goods are exported to them directly their bank release the payment to us”, Finance Controller.*

### **Highlights of Regulatory, Normative, and Cognitive Constructs**

#### a) Regulatory

Saudi Government Ministry of Water, Environment, and Agriculture certification and other bodies including Saudi Aramco, and Audit by other international bodies for quality and standard control was one of the key factor related to legal compliance policies set by governing bodies. Moreover, the Royal decrees introducing new laws due to

changes in government structure. Quality and defect free declaration certificates are provided by the supplier, export license and customs clearance documents are also associated with the legal element of regulatory dimension. Political instability can include factors such as war or political crisis. Salacuse (2003) notes that legal and bureaucratic factors of a country can play an important role in affecting the behaviour of the negotiators.

#### b) Normative

Misinformation about products by the suppliers, dishonesty by over exaggerating with the timeframe and details about equipment, unresponsiveness to the buyer's offers, and overpricing without logical reasoning, annoyance by repeating their unreasonable offers. Such negative practices have been widely practiced in the field of negotiation (Alkhatib et al., 2005).

Relationship building was valued by the buyer, Buying company offered hospitality to the supplier side, site visits to water plants were arranged, better communication leads to better relationship and favours can be exchanged. The culture of hospitality and honoring guests is embedded among the Saudi society (Sidani and Showail, 2013).

Contractual agreements were compulsory for the completion of the deal and contracts also used for the purpose of clarification, confirmation, and conflict-avoidance. Marsnik and Thompson (2013) emphasized the significance of using contracts in the purchase of machinery which has environmental implications, as contracts clarify and make both parties aware about the deal.

### c) Cognitive

Hierarchy culture as the top management can have active role during negotiation and make decisions. Trust is a key factor before selecting any supplier as due diligence process is carried by the management. Brett (2000) explained the communication in high versus low context culture where the top hierarchy has more freedom of communicating and decision making which can be related to the findings of the case.

Religious beliefs included observing prayers together at the time of prayer in the office. Penalties were associated with time if deliveries were delayed. Religious values included observing Islamic values of prayers, respecting holy month of Ramadhan, and festival. One of the key forces influencing the Saudi society is the religion factor (Sidani and Showail, 2013)

Time was taken seriously, efficient utilisation, and incoming payments had strict timeframe for suppliers to settle the payment. Trust is important for securing existing and future deals. Ghauri (1983) explained the time factor can have effects on the formal stage negotiation stage where the atmosphere can be influenced cooperation or conflict. Hence, the findings reveal not meeting timeframe deliveries are more to trigger a conflict in the negotiation process as well as lose the established trust.

### **Overall Negotiation Process**

The pre negotiation stage is where the SAWACO management visited the annual exhibitions in Europe and China to check the latest water desalination machinery and find out which suppliers offered what type of machinery. The initial step in negotiation process started when SAWACO selected few suppliers based on their criteria and John Crane company was selected.

In the early stage of negotiation details about the machinery and water pump seals were requested from the suppliers. These varied from brochures, specification sheets, and all necessary information related to the machinery. In the pre negotiation stage the purchase department prepared the terms and condition to be included in the contract and also the cost analysis of the order. The provisional contract was reviewed and amended with additional or new terms on basis of general manager's feedback. *"The main purpose here is preparation, planning, and strategy for the negotiation to be successful and achieve our target. We exchange the contract draft among different departments so they are aware about the pricing threshold and other terms and conditions to avoid any clash during the negotiation. We spend lots of time in planning before the negotiation and it is essential"*, Purchase Director.

The face-to-face negotiation stage was acknowledged as the most important stage where both parties were involved in negotiation that took place in the head office of SAWACO. In this stage the contracts were exchanged between both parties and all



necessary aspects of the deal are negotiated before it was finalized. This process of face to face negotiation is regarded as lengthy and back and forth as both parties negotiate terms, quantity and price. The sensitive area in negotiation was the price where both parties were heavily involved in bargaining price and the chance of disagreement and conflict were higher. The conflicts and disagreement were handled in a cooperative manner by the general manager and the Director of John Crane company.

*“At the time of face to face negotiation the buyers and suppliers agree to the terms and conditions after selecting the products required at the agreed price. This is stage is essential for sealing the deal as both parties have an understanding of what they have to do from thereon. For example they need to buy by making the payment and we have to supply by delivering the products”* Says General Manager John Crane Company.

Following the successful negotiation the deal is completed and the finance department prepared the purchase order and made the payment so the other party delivers the order. At this stage the supplier sends confirmation receipt and estimated time of delivery. In this stage of post negotiation the supplier played active role for putting order in line and clarifying any issues pertaining to the order.

“Usually we don’t face any problems with products as the everything was agreed and clarified before, they even provided samples or demonstration” says SAWACO Operations Officer.

Table 5: Main Quotes from Interviews between SAWACO (Buyer) & John Crane (Supplier)

Saudi Buyer SAWACO

*The most influential stage during negotiations is when both parties negotiate face to face as this helps with many aspects from convincing price to suppliers to opening cooperative dialog with them.* Purchasing Director

*Higher management gets involved at the time of conflict between us and supplier due to delay in delivering order, unsatisfied safety packaging, defect or damages products.* Operations Officer.

*Legal hurdles can affect in different ways from Saudi government standards at customs to new rules such as tax and labor laws.* Operations Officer.

UK Supplier John Crane Company

*All three stages of negotiation are practiced in majority of deals with large size customers. However, with small buying companies or straightforward order without specialized product modification we do not need to negotiate face to face.* Finance Controller.

*Relationship building is a valued competency within a group, and is highly emphasized prior to and during formal negotiations. There is also a level of informal*

*correspondence prior to formal correspondence with the customer, which helps maintain good relations. Sales Director*

### Case Analysis Between SAWACO (Buyer) & John Crane (Supplier)

Table 6: Overall Negotiation Process Analysis Between SAWACO (Buyer) & John Crane (Supplier)

<b>Institutional Impact</b>	<b>Pre-Negotiation</b>	<b>Face-to-face Negotiation</b>	<b>Post Negotiation</b>
<b>Regulatory Dimension</b>	<b>Strong</b>	<b>Average</b>	<b>Weak</b>
Law	++	+	-
Environment	+	+	-
Regulation and policy	++	++	-
<b>Normative Dimension</b>	<b>Strong</b>	<b>Average</b>	<b>Average</b>
Ethics	+	++	-
Relationship Building	++	++	+
Contract	++	++	++
<b>Cognitive Dimension</b>	<b>Weak</b>	<b>Average</b>	<b>Average</b>
Cultural system	-	+	+
Beliefs	-	+	-
Values	+	++	++
<b>Aggregate Evaluation</b>	<b>Strong</b>	<b>Average</b>	<b>Average</b>

+ Average

++ Strong

- Weak

The above findings can be analyzed on two basis. Firstly, how institutional environment influence the overall negotiation process? Secondly, how elements of each institutional environment influence the elements of other institutional environment, on basis of interrelation between them?

Looking at the table the findings reveal the evaluation between SAWACO and John Crane negotiation process based on three institutional dimensions; regulatory part was average with weak indication in the post negotiation stage, normative dimension appeared to be strong in almost all stages of negotiation, and cognitive elements were weak but revealed average presence in the formal stage of negotiation.

Analyzing the influence of regulatory environment on the overall negotiation process, the legal issues involved in the early stage of negotiation were acknowledged by both parties. SAWACO General Manager quoted, broadly, in this relation that *“Any changes in Saudi government regulations from Ministry of Commerce for company registration to General Authority of Zakat and Tax (GAZT) is reviewed constantly by members*

*involved in dealing with suppliers. So with recent implementation of new tax system the company has to pay around 20% tax, meet quality standards set by Saudi ARAMCO and other bodies, and other costs for non-Saudi staff and providing employees medical insurance has become an obligation for the company. So all these government related rules influence the negotiation process because we have to minimize the cost by negotiating with our suppliers* ". The influence of regulatory environment was high as any breach of rules by relevant government bodies ignored results hefty fines and risk of losing license which clearly affected the deal to be negotiated with suppliers. *"There were occasions when upon receiving instructions from buyer we had to hold the products to be exported until further notice because they had some government related issues to be solved"*, says Finance Controller of John Crane- John Crane Company. In this case, the regulatory environment influenced the negotiation process as both parties were deemed to renegotiate the deal once the buying party was able to after solving legal formalities.

As per the analysis, the normative environment appeared to have strong influence on the overall negotiation process. The use of contractual agreements was compulsory and its significance was stressed by both parties involved in negotiation. The buyer and supplier acknowledged the main purpose of using contracts were to have mutual understanding of agreement, avoid conflict, and served as a basis of the deal during negotiation, as stated by the GM of SAWACO *"...Without exchanging contracts there is no deal"*. Moreover, the concept of relationship building was practiced and accepted as a norm for negotiation by both parties, where the buying party took the initiative to

establish stronger relations by offering Saudi hospitality, sightseeing, and casual conversations during negotiations. This was not a usual norm for the suppliers to get involved in these extra activities when negotiating the deal but the suppliers had to accept and adapt. *“for us money and time is important but we also realized this is a different culture and things work differently so we accept their way of doing business and reciprocate by listening to their priorities during negotiation which involves sports, travel and political topics and they bring the main bit of pricing at the end”*, says Finance Controller John Crane Company. Therefore, the normative dimension served as a strong factor by both parties and influenced the negotiation process.

Going into the details of cognitive environment, it served as weak influence in the initial stage of negotiation as both parties were more concerned about other factors involved in the preparation negotiation. For instance, the role of religion was highlighted by the supplier side as it had no direct or practical implication on the deal. The buying party valued the role of religious values because they paused the negotiation during formal stage with their suppliers at the time of prayers as this was an obligatory practice observed in their company. In addition to this the buying company refrained from conducting any negotiation during the holy month of Ramadan, *“.... Its more like an obligatory tradition since the formation of the company even our owner used to lead the prayers and withdraw from business activities at the time of prayers and it’s a common practice in this Islamic country as even the banks shut at the time of prayer for 15-20 minutes I mean it doesn’t affect the business plus we like this because we don’t end up missing the prayer this way”*, Operations Officer SAWACO.

Analyzing the inter-relationship of elements of three dimensions; the country law and government body regulations had interplay between the normative elements of ethics and contract in negotiation. Terms and conditions, pricing, time of delivery, custom clearance and other formalities had to be drafted in contract in conjunction with the laws and regulation. Moreover, the role of ethical practice in normative dimension reflected the policies and laws in the regulatory dimension since the concept of bribery was regarded as a corrupt practice and has severe punishment in accordance to Saudi Law. Furthermore, the relationship building factor in normative dimension overlapped with the cultural system and values of cognitive cultural dimension. The concept of hospitality and building trustworthy relation for business dealing were derived from Saudi culture. Ultimately, the country law and policy elements of regulatory component also coincided with the religious values element of cognitive cultural component. As it was highlighted and understood by both parties involved in negotiation about the short temporary closure of business activities during the time of prayer, and short delays caused due to religious holidays were part of cultural values in accordance with Saudi Arabian Law.

#### **5.4 Case 3: BinDawood Group (Buyer) and Allied International Trading (Supplier)**

Overview of Buyer

Bindawood Group founded in 1984 is a Saudi group and one of the leading retailer in the Kingdom. It has become one of Middle East's and North Africa's (MENA) largest operator in the retail industry comprising of hypermarkets, department stores, supermarkets, importers, agents, and distributors providing the Kingdom's widest international offering of food and grocery. The group manages two key brands – BinDawood and Danube- across 70 hypermarkets in the Kingdom. The group has achieved a reputable reputation in the Kingdom for its long presence also the BinDawood family leadership skills and family values.

The Group is involved in importing a wide range of products food and non-food related, from confectionary items to fresh produce to even superior quality organic consumer products from across the globe. In this case, BinDawood is involved in buying nonfood products such as high visibility workwear for heavy duty-tasks, disposable plastic bags and other products like aprons for the food industry, and a variety of gloves.

The key personnel involved in making decisions related to negotiation deals are Board Director, Assistant General Manager, Head of Purchasing, and Business Head Unit Manager. BinDawood as a buyer have been dealing with their UK Supplier Super Touch- Allied International Trading since 2014. Their head office where all negotiations took place is based in Jeddah, Saudi Arabia in their multi-story building which is also a hypermarket on the ground floor.

Overview of Supplier



Allied International Trading is a UK based company with their warehousing facilities in London and Birmingham. It is one of the leading gloves and high visibility protection workwear provider in the UK for the past 25 years. The company established its presence in the UAE to serve the Dubai market since 2018 and is still in progress to expand their market. The company imports products from the far east and supplies to potential buyers in Asia, the Middle East and Europe. Allied International Trading (Super Touch) has been involved in supplying in Hi Vis Vest, Gloves (Variety), Ear plugs, disposable coverall, headwear, overshoes, aprons and many more. The popular products supplied to their Saudi buyer BinDawood were the Nitrile and Latex hand gloves, Plastic aprons, bags, sheets, and Hi Vis workwear.

The keys buyers include from the industries of automobile and manufacturing, retail, medical, food, transport and construction. Supertouch has own range of products as well as the imported high-quality brands from the far East. The key management in the company involved the Managing Director, Finance Director, and Sales Director. When doing important negotiation deal with their Saudi buyer BinDawood the negotiations were held in Saudi Arabia in the buyer's head office.

### **Findings of BinDawood Group (Buyer)**

#### **5.4.1 Regulatory Environment**

In terms of legal formalities the concept of tax recently imposed by Saudi government was given stressed as it was a new addition in the pre negotiation stage because in previous deals it was not highlighted in the initial stage. *“one of the first things we ask our supplier is the 5% VAT inclusion in the price and there is not much bargaining done in negotiation based on VAT as its not us demand but it’s for the government. But of course this has affected everyone in the market as it was not included before but now things are changing suddenly,”* says the Head of Purchasing.

The government body, SASO was responsible for setting quality standards pertaining to product quality and standards, testing and inspection. BinDawood also had to meet their standards when it comes to selling products to consumers in the market. These requirements are raised during formal stage of negotiation with the UK supplier to make them aware about these standards to avoid any complications. *“We ask for product certificate from our suppliers for example for fire safety gloves they have to supply us the certificate that it was tested by a safety company and the test pass certificate along with all other important details so we submit to SASO and keep for our record in case of inspection and audit,”* says the Head of Purchasing.

It was also highlighted that the risk of diplomatic dispute between Saudi Arabia and other countries was high which might impact the post negotiation stage. This appeared as warning in case political rift could lead to boycott on importing goods from certain countries. Moreover, the ongoing war in Yemen, Qatar blockade of airspace, growing threat of terrorism along with piracy affecting sea route were some causes of concern

that created uncertainty and negative impact on the post negotiation with the suppliers. However, there were no such threats in negotiating with UK supplier given strong bilateral relations between the United Kingdom and Saudi Arabia.

*“The threat of terrorism or other issues that are beyond our control are not only affecting Saudi Arabia but everywhere so this doesn’t affect our negotiation dealing with suppliers. What is more challenging is the economic situation such as inflation, high government costs, VAT, big changes in labor laws leading to Saudization has led large percentage of expatriate population leave the country which impacted the retail industry negatively because there were all our customers. This definitely affects our negotiation strategy by reducing the import quantity compared to before,”* says the Assistant General Manager

#### **5.4.2 Normative Environment**

Contract was given to the supplier by the head of purchasing in the pre-negotiation stage. During this stage, the supplier presented product samples and in return the buyer provided them with the terms and condition form and requested to submit the report with detailed plan of product supply. Once the supplier return with the completed form then both parties start working on contracts.

“We have an yearly contract with our supplier which details the terms and conditions including the branches the products will be sold, area in store, promotional terms and all other important details. The credit terms are made clear and majority of payments

are made on credit terms we ask our suppliers to deliver good first and we pay them later on agreed term time”, says Purchasing Manager.

The role of relationship building was identified as the most important factor in buyer-supplier negotiations during informal and formal stages. Strong relations between buyer and supplier led to more cooperative and successful face to face negotiation. It was through strong relations in the pre negotiation stage buyers got to understand the priorities, sales target, and budget limits better of their counterparts which served as a crucial base during formal negotiation. “It is extremely important to build a strong relationship in negotiation and to show him how important he is for you and then he will show how important I am for him. After finalizing the contract I always take my supplier for dinner or any tours and everything is paid by our company beforehand so they don’t get any chance for paying then. In return they invite us to their business units and entertain us when we visit UK,” Says the Head of Purchasing.

Ethics held a critical place in buyer-supplier negotiations during pre-negotiation stage as the suppliers persuaded buyers to push the through different unethical means. It was found that unethical practice was very common in this area of the fast paced retail industry as suppliers tend to take short cuts by offering monetary and non-monetary incentives to the buyers in order to accomplish the deal. At the time of pre negotiation stage, purchasing managers received random calls from suppliers who disguised themselves and attempted to enquire about the buyer’s interest in the purchase order of plastic bags or other products so this would give them the idea about how desperate

buyers are and help them to prepare and negotiate with the buying company with an upper hand.

*“On many occasions the suppliers come to me with luxury gifts like Rolex watches, vouchers of paid hotel accommodation in top London and Paris hotels, and I even received offers of certain percent commission if I get them the deal. I mean ridiculous they have the guts of doing this because the previous head of purchasing probably took and got fired. I was briefed about this practice by the board members and the director that I will be facing this a lot and how I should deal with it. I deal with them very diplomatically by politely refusing all offers because there is no pint in creating a conflicts as I need suppliers at the end of the day too.”*, says Head of Purchasing.

#### **5.4.3 Cognitive Cultural Environment**

Trust was important since it assured the buyer side that the suppliers are suitable for doing business with them. It played a pivotal role in the development negotiations from the pre negotiation stage until the completion of the deal in the post negotiation stage. The buyer valued trust based on supplier’s keenness to adapt to Saudi Arabian cultural values as well as the way of doing business.

*“We want to know if they can agree to our delivery times, the quantity of order, and pricing. And most important is can we trust them with their order because we can’t just risk selling lower quality products in the market and devalue our brand reputation. So trust is essential and we measure trust by how much our supplier listen to our priorities*

*and accept our way of doing business. For example, We communicate a lot prior to negotiations with our suppliers to get answers to all our questions and then present to our top management, and if we feel they are not cooperating or showing less interest then it gives us the impression that we can't trust them. It not just buying and selling here we want them to understand and appreciate us too",* Head of Purchasing.

Time was also perceived as an important factor by the buyers during the negotiation process. BinDawood group is a leading retail store in Saudi market, it has exclusive presence and high market share in certain precious markets such as holy cities of Makkah and Madinah, and the group has been growing exponentially throughout the Kingdom. All this made the buying and selling environment extremely busy where time was valued as money. Time was dedicated to suppliers according to their size and capacity. For example, equal amount of time and attention were not given to Procter and Gamble as it was given to a small local supplier. The company developed innovative ways that could save the time for both parties by replacing traditional practice where supplier visits the buyer's office to present new samples by introducing an online portal where suppliers were able to upload new products and buying representatives could then request samples if it was of any interest to them. Moreover, during post negotiation stage, the suppliers were fined for not meeting delivery timeframe.

*“Time is extremely precious in this fast paced retail industry and we try to utilize it wisely therefore we introduce easier ways of listing items where suppliers do it themselves and we can cross check as this was not the case before. In contract we clearly state that there is 10% penalty charge if the supplier fails to deliver the purchase order in three day time.”*, says Assistant General Manager.

The role of religion was not regarded as a crucial factor that influenced the negotiation process except during face to face negotiation to some extent. This would be the case when the buyer was dealing with food and confectionary good that contained prohibited ingredients or non-halal food. However, this was not the case here since the products were non-food mainly. At the time of prayers all departments and staff attended the prayers as this was a common practice, *“during working hours we take prayer break at the time of Zuhr and Asr prayers (afternoon prayers) and if any deals take place during prayer time then we just excuse the meeting and go for prayer and continue after the prayer. In case our suppliers are Non-Muslim, we kindly ask them to have coffee and wait”*, Head of Purchasing.

## **5.5 Findings Super Touch-Allied International Trading (Supplier)**

### **5.5.1 Regulatory Environment**

From supplier’s perspective, the regulatory component highly influenced the whole negotiation process. The government rules and regulations acted as a barrier for the supplier to register and obtain license at the pre negotiation stage. The supplier owned a registered warehouse in Saudi Arabia for the purpose of product distribution to buyer,

since the buyer did not import goods directly from international suppliers. The government bodies such as Ministry of commerce, Ministry of Interior and Saudi Customs were the key bodies the supplier had to register for the company license and complete all necessary legal formalities in order to deliver its products to the buyer.

*“The problem most of the time is created at the port when Saudi Customs Authority delay in clearance if there is any suspicion with the documents. Sometimes we even have to prove who we are selling the products to. This delay creates big issue between buyer and supplier because we as a supplier are unable to meet the delivery time. That’s why we try to keep extra stock in the warehouse in case this delay happens again”,* Says the Operations Officer.

Saudi Standards, Metrology and Quality Organization (SASO) have implemented regulations regarding the biodegradable plastic material used in the manufacturing of bags and gloves. This affected the supplier as the products manufactured with ‘Polyethylene’ and ‘Polypropylene’ had different custom codes for garbage bags, gloves, and disposable plastic products to comply and were subject to contain oxo-biodegradable element which was approved by the Saudi authorities. It was crucial for exporters to mark the logo of biodegradable on plastic products being imported into Saudi Arabia along with the SASO standard department license for the customs clearance. Hence such rules and regulations by Saudi government bodies influenced face to face negotiation and post negotiation stages.



*“With so many recent restrictions on the use of plastic material created difficulty for the plastic manufacturers. Because of this we had to study what exactly is the requirement by SASO lets say they want maximum 250 microns thick in plastic for trash bags, then we have to clarify this with our manufacturers in China about this changes. It has become so much complicated that we have to negotiate with our buyers for increase in price due new regulations”,* says Finance Controller.

Moreover, the environmental factors also resulted in minor delays in goods delivery on some occasions which influenced the post negotiation stage. In recent years due to political situation of the country, there have been some economic and political issues affected the international business. *“... the Saudi war in Yemen and blockade with Qatar affects business in particular the UK suppliers as Saudi Arabia is not their home country so any changes in government policies means companies have to register for example the corporation tax or changes in foreign investors license etc.”,* says Operations Officer.

### **5.5.2 Normative Environment**

It was revealed that corruption was widespread among different departments of the host country’s government and other people that were indirectly involved in buyer-supplier negotiations. The greatest challenge appeared when the company had to renew its business license and residence permits of employees with the Ministry of Interior. The renewal procedures were too complex and necessitated using help from local Saudi experts who were potential bribe receivers. They were retired government staff and well connected with all government departments. On the other hand, the

government officials were regarded as the main problem makers as they delayed the clearance process until they were paid. The buying company was aware of this corruption and hence didn't take the initiative of such direct import from the UK. Such unethical practices influenced formal negotiations with the buyers as the supplier had to negotiate a better price due to extra costs incurred with third party agents, and delays caused in post negotiation stage affected the relations between buyer and supplier.

*"In this business, you have to do a lot of favours to the people that are involved in dealing with business. Especially the workers at the port for customs clearance are the ones without any incentives they would not speed up the clearance process. The clever ones would not demand money but ask for other things so it looks like we are gifting them. So we have to take care of these things as we know it will help us,"* says Operations Officer.

Contractual agreements between the supplier and buyer were formed on an annual basis. At the end of each year, the contracts were revised and negotiated with the buyer at the time of the formal stage of negotiation. The deal would not be completed until the contracts were exchanged between both parties. Hence exchange of contract played a significant role in securing a negotiation deal with the buyer. *"The contract needs to be revised each year for many reasons, because the buyer expanded the business by opening new branches this means more quantity required, changes in prices due to inflation, also additional government charges. In addition to this both parties negotiated*

*before exchanging contracts for price, quantity, and time of delivery,”* says Finance Controller.

Without the establishment of stronger ties with the buyers, there was no deal. The concept of building relations was valued by the buyers and it was significantly important from the pre negotiation stage in order to win the deal. The way business negotiations took place with the buyer was entirely different to how it was in the UK even if the buyer were in the same industry. This was because Saudi buyer’s way of doing business was different due to cultural differences and they had many suppliers in the market to do business to buy from. In order to secure the deal by building stronger relationship eased the negotiation process and also guaranteed success. *“...For them, it is about be my friend first then my supplier kind of mentality. Otherwise, they can just pick and choose any other supplier from the market. What they really want is suppliers that are flexible in negotiations and able to adapt to their terms. We don’t miss any opportunity to keep them happy for example we show them our premises when they visit the UK and take them around for entertainment,”* Says Sales Director.

### **5.5.3 Cognitive Cultural Environment**

Time sensitivity between both parties had a strong effect on the face to face and post negotiation stages, where suppliers expected payments on time and emphasized focus on price negotiation whereas buyers expected delivery on time with stock availability in short given notice. This was mainly because of differences associated with each party’s cultural system, which consisted of different schemas, communication, expectation. *“They always expect us to deliver goods on the dates they want them and they get to*

*open the discussion on pricing during negotiation but when it comes to paying us they delay the payments most of the time,”* says Operations Officer.

The influence of religion on the overall negotiation process was not significant. However, the elements of religious values were present during the face to face negotiation stage. For instance, no formal negotiation took place during prayer time as everyone attended prayers in congregation, and during the month of Ramadhan, the business hours varied and negotiations took place late afternoon. Moreover, during negotiations in the month of Ramadhan, the buyers would negotiate to lower the price and increase the quantity due to high demand by insisting suppliers by emphasizing “Come on its possible for the sake of Ramadhan...,” because the Holy month was considered to be more forgiving, merciful, and caring.

*“In Ramadhan it is a tradition to have Iftar party as we are invited by our buyers and also exchange corporate gifts like dates. It is really busy time during that month as the demand for bags and disposable gloves is extremely high and during Ramadhan we have special prices for our buyers because they are buying in huge quantity and our owner is also happy to offer special rates for Ramadhan,”* says Finance controller.

On the other hand, trust was another cultural element that was significantly valued by both parties. Trust was established during pre-negotiation by building a strong relationship between both parties and by building credibility and maintaining a long record of business history with buyers. However, having established trust in negotiations with the buyer was likely to be broken in post negotiation, in case of one

mistake from supplier's side. *"despite the fact that we have won our buyer's trust it gets broken with small issues based on delay in delivery, quality, and quantity. Some issues are difficult to trace such as any defect in product from the manufacturer, problematic packaging due to weather conditions or shipping, of course, late delivery"*, says Sales Director. This impacted the overall negotiation process as late deliveries resulted in negative feedback from the buyers and also were highlighted at the time of pre and face to face negotiation stages at the time of subsequent deal.

### **Highlights of Regulative, Normative, and Cognitive constructs;**

#### a) Regulatory

Rules and regulations related to company registration, government bodies including Saudi Customs Authority for the consignment clearance, SASO for certifying quality and standard for the plastic products, and Ministry of Interior for issue and renewal of work permits. In addition, the political environment of the ongoing war with neighbouring countries of Yemen and Qatar blockade affected the cost of doing business. Saudization of company employees by Ministry of Labour, and War and terrorism uncertainties.

#### b) Normative

Preliminary contracts were drafted with the basic terms and conditions for the supplier and subsequent stages the contracts were developed and modified until an annual contractual agreement was agreed by both parties. Annual contracts were drafted and

exchanged for the deal completion. It is likely for contracts to be exchanged on several occasions before the deal is finalized as one of the main rationale of contract is for both parties to be clear and mutually agreed on terms (Mallor, 2013). It can, therefore, be argued that annual contracts might be exchanged between parties more than one as details need to be clarified, amended, and agreed.

The relationship building was valued and regarded as a reciprocal practice to give and take concessions and favours. Stronger ties with the buyer assured the successful outcome of the negotiation deal.

The unethical practice of offering gifts, commission from securing the deal, and bribery were highlighted. Hiring third party agents to overcome legal hurdles and bribery at the customs clearance. In certain cases, the use of bribery is made to achieve the objective (Lewicki and Robinson, 1998). Although practice of bribery is not restricted to negotiation field as its widespread in almost every aspect. It is noteworthy to reiterate that bribery does not have to be in the form of money but it could be in non-monetary form such as gifts, complimentary services and other beneficial resources.

#### c) Cognitive

Trust was established by frequent communication, assessing interest of counterpart, and keenness to adapt to buyer's established way of doing business. Time was taken seriously and late deliveries were penalized, and large suppliers were given extra

attention and time was dedicated to them. Religious values were observed at work place and practiced normally, negotiations were paused during prayer times. Trust is key in buyer-supplier negotiation and also a fragile concept which can be broken with minor errors.

Religious values are important because of Islamic country and religious expressions were practiced as a bargaining tool during the negotiation process. the use of religious expressions can be helpful for achieving negotiation objective (Richardson and Rammal, 2018). The finding revealed that use of religious expressions also influenced the atmosphere of the face-to-face negotiation as the negotiators reacted positively.

## **Overall Negotiation Process**

### **Pre negotiation**

In pre negotiation stage both parties communicated informally with matters pertaining to the deal. During this stage either party inquired regarding the availability of certain products, stock availability, pricing, and clarification of new rules and regulations that may affect the deal. The negotiations took place in the Bindawood Head office based in Jeddah, Saudi Arabia.

*“Usually the suppliers sit with allocated buyers for the initial meeting for the products they want to sell. The samples or the proposal is received and a report presented to*

*the head of buying team, and we reschedule a more formal meeting to negotiate price and quantity then” Purchase Manager, BinDawood Group*

*“During the our first meeting, buyers don’t show much interest as they are still in the process of deciding whether to buy the products or not. It is suppliers responsibility to pitch well and put more efforts to help them understand the deal.” Says Sales Director Allied International Trading.*

### **Face to face negotiation**

During face to face negotiation stage, the supplier party consisting of up to four negotiators and buyer side two members negotiate to finalise and complete all essential elements of the deal. The main topics negotiated during this formal stage mainly comprised of price, quantity, and contractual agreement. Moreover, it is during this stage terms and conditions are revised and agreed between buyer and supplier in light of rules and regulations set by the government.

*“As a supplier we want to secure the deal when we are on negotiating table, we know that it wont be a straight forward negotiation as the buyer wants to negotiate price that suits them so we do our homework before getting into final negotiation” Sales Director, Super Touch.*

### **Post negotiation**

During post negotiation stage the pending deal formalities are completed. This involve, payment confirmation of the purchase order, as well as the delivery details provided by



the supplier as agreed. It is during stage the buyer celebrates with their suppliers for the completion of the deal, indicates suppliers about forthcoming deals, and discuss changes in trends of consumer market in KSA.

“There is not much after the deal is completed, we just need to fulfil our promise of delivering consignment in time as agreed and they need to confirm the payment”, Says Sales Director, Super Touch

Table 7: Main Quote from Interviews between BinDawood (Buyer)- Allied International Trading (Supplier)

<p>Buyer</p> <p><i>“For a successful deal in negotiations, preparation is very important. You need to know what seller is selling and how much are competitors selling for in the market”.</i></p> <p>Director</p> <p><i>“Yes, there is always back and forth process involved during negotiation. We have to follow instructions from our heads so if a supplier gets back to us with a change in contract or quantity. Before giving them a response we seek approval from the head.”</i></p> <p><i>Purchasing Manager</i></p>
<p>Supplier</p>

*“For us the pricing and quantity are very important when we negotiate with them. We as supplier need to know costing very well. Taking everything into account from the manufacturing of products to delivering to supplier. Otherwise negotiating without having any knowledge about costing is like going for a war without any weapons”*

Finance Controller

*“Maintaining good relations with the supplier can open doors in doing business and not just limited to negotiation”* Sales Director

### Case Analysis of Bindawood (Buyer) & Allied International trading (Supplier)

Table 8: Analysis of Overall Negotiation Process Between Bindawood (Buyer) & SuperTouch-Allied International Trading (Supplier)

Institutional Impact	Pre-Negotiation	Face-to-face Negotiation	Post Negotiation	Overall Impact
<b>Regulatory Dimension</b>				<b>+</b>
Law	+	++	-	<b>+</b>
Environment	++	-	-	<b>-</b>
Regulation and policy	++	++	+	<b>++</b>
<b>Normative Dimension</b>				<b>++</b>
Ethics	+	+	++	<b>+</b>
Relationship Building	++	++	+	<b>++</b>
Contract	+	++	++	<b>++</b>
<b>Cognitive Dimension</b>				<b>+</b>

Cultural system	-	+	+	+
Beliefs	-	+	-	-
Values	+	++	++	++

Legend:

Strong ++

Average +

Weak -

### **Regulatory**

The regulatory environment influenced all stages of negotiation between buyer and supplier. Saudi Zakat and Tax Authority (SZTA) by introducing the new tax system of 5 percent on all goods and corporate income tax impacted the pricing strategy of BinDawood Group and also the purchase order capacity from Allied International Trading. This resulted major changes in the terms of contracts by including the VAT in the price. Furthermore, this move influenced the face to face negotiation because the supplier negotiated for low price deal and the supplier endeavored to sell for a higher price, both parties were involved in bargaining of price to balance the cost. *“Our profit margins will be affected if we buy the products on higher price because we have to sell in market with price inclusive of VAT to customers, and they will not buy if we increase the price because they already find things expensive since VAT. So only way to*

*increase our sales was to sell items on promotional prices and buy from the supplier at the lower prices,”* Head of Purchasing, BinDawood.

Furthermore, the rules and regulations also caused hurdles in the negotiation process because unlike before the supplier had to provide safety certificate of the product to the buyer in order to register with Saudi Quality Standards Authority (SASO) and manufacturing requirements of plastic products for the customs clearance. This resulted in conflict during formal negotiation as the buyer provided short time frame to supplier for the delivery of plastic aprons meeting manufactured meeting the standards set by SASO and the supplier had to compromise on time and negotiate price.

*“The process of getting products manufactured and delivered to buyer is a complicated process. As a supplier first I need to know the price and purchase order of buyer before I place the order with my manufacturers in order to negotiate a price with them because I just can’t get things manufactured for a higher price and sell to buyer incurring loss. Sometimes the buyer wants order in 3 weeks to be delivered to them, which is very short notice for us, so this case we negotiate price and make delivery with fastest option available for example using air freight instead of sending by sea which takes longer. This was agreeable with the buyer and they agreed to compensate for the air freight charges,”* says Operations Officer, Allied International Trading.

## **Normative**

The unethical practice of bribery was faced by the buying side when supplier attempted to bribe with different means during pre-negotiation stage. Refusal of bribery offers also helped buyer to negotiate well in face to face negotiation. *“If I don’t accept his gift or offer he knows he is guilty and may be ashamed of himself. This leaves me in better position to exercise my power in negotiation and it helps a lot, otherwise if I accept anything then it gives him impression that I owe him,”* says the Head of Purchasing, Bindawood. Moreover, the bribery influenced the post negotiation stage where the suppliers had to bribe the customs official or pay the Saudi agents to solve the problems.

Relationship building had strong influence in the pre and face-to-face stages negotiation as it helped both parties to understand each other’s objectives better. In the pre negotiation stage the supplier side negotiator visited the buyer to have an informal meeting to preset samples and new product information. This was done to make the bond with the buyer and make them realize the suppliers are serious and reliable. *“Buyers appreciate because they are getting information in their office at their convenience and also feel that we are genuine and they take interest in us. For example, unlike other suppliers just sending them emails or ringing them on telephone doesn’t give them good picture of the products so when we visit their office and show the samples it really matters and we get to find out by their expressions and body language if they are serious about buying them,”* says the Sales Director, Allied International trading. Therefore, in the pre negotiation stage when both parties meet it

gives them an indication about the seriousness of the deal, whether the supplier is genuine and reliable.

Having established relation in the pre negotiation stage also influenced the formal stage since both parties got acquainted and already have basic idea about the deal. Relationship building also made both parties feel like they are working together and friendly atmosphere was maintained during negotiation. *“If a new supplier came to me and tells me and demands me concession then I will surely say no because I don’t know you well and I don’t care so more importantly it’s about tell me who you are and show me what you got then we can work together,”* says the Head of Purchasing, BinDawood. Hence by establishing relation helped both parties to achieve their objectives and avoided adversarial relation by working together to close the deal.

In the pre negotiation stage contract draft from supplier side consisting of general terms and condition was given to buyer. Based on this contract, the supplier explores the issues and prepares for their side of terms to be negotiated with the supplier in the next stage. The initial contract triggers the negotiation from informal to formal stage where both parties have formal discussion in order to reach an agreement. For example, the supplier side of negotiators provided buyers with the option of different kind of plastic material used for thickness in different types of gloves which meets the standards set by SACO and based on this the terms and conditions were agreed and contracts exchanged. The contracts were used by both parties in the post negotiation stage as well for the purpose of exporting container by the supplier from UK to Saudi Arabia, for fulfilling legal formality by registering and uploading contract with other necessary

documents on SASO portal, and even for renegotiations in case there are major changes and terms of agreements need to be amended.

*“Use of contracts is very important and it is exchanged by both parties and they are used from the beginning until the end. And because of new developments in Saudi Arabia contract is a must for many reasons from customs to tax authority and other government agencies,” says the Assistant General Manager , Bindawood.*

## **Cognitive**

Cultural elements were weak in pre negotiation stage and average in formal and post negotiation. Communication was a factor which had higher influence from buyer side of negotiators since it was them who were more involved in communicating and decision making. Whereas the supplier side negotiators discussed details relevant to product specifications and contractual terms. However, the concluding decision on quantity and price of order was exercised by the head of buying team. *“The head of their side holds main decision power and in most cases he deals the deal. everyone respects him for example when he enters the room everyone from their side gets up and take their seat after he sits, and speaks more formally and politely when he is there, and most importantly he seals the deal in case they want to go ahead with order or not,”* Operations Officer, Allied International. Such issues were dealt by paying respect to the Saudi culture where the seniority was given more respect and the supplier side didn't want to jeopardize the atmosphere by restricting to adapt to their culture.

Religious beliefs played weaker role in pre and post negotiation stages, but it had average effect on negotiation during formal stage. This was because the religious month of 'Ramadhan' was used as an excuse to demand concession in price by the buying party. *".... because they know we are all Muslims and for Ramadhan we will express respect and generosity so they play the Ramadhan card and ask for further discounts,"* Sales Director, Allied International. Therefore, the religion aspect appeared to have influence on bargaining a price during formal negotiation to some extent.

The influence of time was effective during formal and post negotiation stages. There were situations where the buying party delayed the negotiations outcome and kept postponing the decision finalize the deal and place order. It was practiced to build time pressure on suppliers and negotiate price accordingly. *"Sometimes we don't agree terms and are unable to close the deal in one session so it can take up to three or four sessions to reach a deal because we time to check and compare prices with other suppliers,"* Head of Purchasing, Bindawood. Building time pressure favoured the buying party and was used as a negotiation tactic to pressurize the supplier side so their negotiators eventually become jaded and agree to their terms. In addition, the delay in delivery of goods had penalties set by buyer that impacted supplier.



## **5.6 Case 4: Manuel (Buyer) and Gulf International Trading (Supplier)**

### **Overview of Buyer**

Manuel is a leading shopping store which was founded in 2010 in the commercial city of Jeddah, Saudi Arabia. Since its establishment, it has been a leading store in offering to Saudi consumers the concept of luxury – devised by the co-founder and acting CEO. This concept envisioned to bring the luxuries in the form of both products and elegance in the infrastructure across a dozen of its store in the Kingdom. The brand explicitly installed custom made, state-of-the-art inventory from Western alliances. For example, customised refrigerators from Italy were installed to maintain the freshness of products and furniture from Spain to showcase pleasing architecture. Furthermore, Manuel has been one of the first stores in the Middle East to sell imported products such as Dragon fruit from Thailand, Foise Gras from France and smoked Salmon from Northern seas. Manuel promises to offer products with the best ingredients at affordable prices. The retailer has earned a remarkable reputation within the Kingdom and outside the country among the leading international suppliers.

### **Overview of Supplier**

Gulf Services Ltd. is a UK based supplier of European brands for export specialising in international trade development and marketing. In addition to European branded confectionery products, the company is also involved in importing confectionery items from Pakistan and distributing to Saudi Arabia and other regions. At present, the supplier works with buyers in Gulf Arabian & Middle East - MENA Countries, India, China, EU - UK, Spain, France, Germany, Belgium, Poland, Balkans and Turkey. The

main products they range from confectioneries, chocolates and EU branded food items. The key people involved in the decision making are; Managing Director and Sales Manager. The company is a relatively small size and employs limited staff of up to ten employees. Majority of them are engaged in warehouse and distribution activities and a handful of managers deal with sales and purchase matters within the office while the Managing Director is actively involved in travelling to Middle Eastern countries to negotiate existing and prospective deals.

Manuel and Gulf Services Ltd have been in business since the beginning of Manuel's establishment, i.e. in 2010. Gulf Services Ltd. is one of the many sellers Manuel imports from and both parties have developed a professional business relationship over time. In an interview with Saudi Gazzette (2017), the Co-founder and CEO of Manuel was asked about the biggest challenge facing Manuel. He responded with logistics being the biggest challenge and commended the importing partners for the business strength.

## **Findings of Manual (Buyer)**

### **5.6.1 Regulatory**

When importing items related to food, the rules and regulations by the Saudi government authorities impacted the overall negotiation process in several ways. In particular, the Saudi Food and Drug Authority body (SFDA) topic was at the forefront from the pre-negotiation stage, where the buyer had to meet quality and safety standards of food-related imports. This meant the food product ingredients met the criteria set by SFDA which was halal ingredients and use of alcohol and pork was

strictly prohibited. It was compulsory for the buyer to register imported products with SFDA and acquire licenses products, warehouse storage, and quality test control. Any negligence with imported items that contained prohibited ingredients resulted in the confiscation of goods by the Saudi customs and hefty fines. Such legal elements of SFDA were raised during face to face negotiation.

*“You see the rules and regulations of the government is something we can’t ignore and every business has to follow it directly or indirectly. These rules also serve us as armor when negotiating with our supplier when importing any new product because we give them the option of either they register with the government body and export the items to us or allow us to take care of the government related matters so we get a lower price if we are registering with the bodies like SFDA, SASO, and Saudi Customs.”*

Saudi Arabian laws influenced the negotiation process due to frequent changes in rule and regulations because of political, social, and economic reasons. The introduction of the tax on soda and energy drinks followed by initially introduced VAT by the General Authority of Zakat and Tax influenced the pricing and quantity aspect at the time of the formal negotiation stage with suppliers. In addition, there were specific rules when importing seafood and other sensitive items as the company had to register with the government body and obtain a warehouse certificate for storing seafood products.

“For example, fish product import are very stringent in Saudi Arabia, when we import branded fish from our suppliers like fish fingers, we have to acquire warehouse license from SFDA and Saudi Municipality as there is different guidelines for storing them with

certain temperature, hygiene standards, documentation etc. and same case applies for cosmetic items,” says Head of Purchasing.

The significant changes in Saudi Arabian environment also influenced the overall negotiation process. Through political change, there were changes in almost every aspect of how a country is being governed from economic to social. The inflation rate was high compared to the past along with other government fees. The ongoing war in Yemen and political feud with other countries resulted in the demand and supply of goods. This is also because other regulations such as Saudization and hike in government fees affected the expatriate population which were key customers for retailers. All these changes eventually impacted the whole negotiation process between buyer and supplier.

*“Recently the Saudi government had a diplomatic issue with Canadian government and decided to boycott Canada. All Canadian products are banned in Saudi markets now and we cannot import any Canadian products which our UK suppliers sell us. And this decision has affected us because some of the deals were finalized and contracts were exchanged so this is something out of our control and we have to deal somehow,”* says Purchasing Director, Manuel.

### **5.6.2 Normative**

The act of exchanging gifts as a bribe by suppliers was frequently practiced in the pre negotiation stage of negotiation. In addition, the leak of sensitive information to other suppliers in the market just to pressurize the buyer in order to agree on the quantity of

goods. Use of exaggeration and lies was regarded as a usual practice by the suppliers at the time of face to face negotiation stage when deals associated with new products introduction. There were frequent cases of false promises during formal stage of negotiation where the supplier reassures promises to deliver quality products. In post negotiation stage, on several occasions where the supplier delivered good quality products in the initial orders and subsequently delivered damaged or poor quality products which were not suitable for consumers. Therefore unethical practice influenced the overall negotiation process between both parties.

*“Many times the supplier side bring us gifts to impress us thinking they can convince us to agree their price for the deal. Our company has strict policies to avoid any corruption as they have cameras in our office, the management knows where I live, they also oversee our emails and if I am having any other dealing with our supplier or competitors. And as a Muslim I shouldn’t get involved in such things because its against our morals”, Says the Head of Purchasing.*

Contracts were exchanged between buyer and supplier for every negotiation deal. However, the stage during negotiations in which a contract was exchanged varied. It acted as a security for both parties on terms and conditions they agreed on different aspects varied from the quantity, quality, and price but not limited to this. For example, contract entailed the rights of exclusivity for items with suppliers, this meant the suppliers are restricted to supplying certain products to other buyers in the market. Moreover, most of the payment was done on a credit basis and it was very important to include payment terms and deadlines. Contracts were renewed and amended

several times prior to exchange between both parties during different stages of negotiation until the deal has been finalized. The role of the contract was well explained by the Head of Purchase as;

*“Contract is a very important part of negotiation we spend so much time preparing contracts then show to our top management to review then we add additional terms based on their feedback before sending it to other party prior to the negotiation deal. In many cases involves back and forth process as the supplier sends us their contract and we request some amendments and vice versa until both parties agree on terms then we exchange the final version. So the contract is a must in our negotiations because what both parties take with them after the negotiation is the contract.”*

Relationship building between buyer and supplier for an overall negotiation was active and perceived as important because it facilitated the buyer to establish trust. Stronger ties with suppliers acted as flexibility during negotiations between buyer-supplier communication and amend any terms in the contract. The concept of relationship in negotiation was considered as important by both parties but suppliers showed more interest in building relations with the buyer prior to the negotiation to give the buying side impression that they are aware of the culture and by building relations in negotiations it would help them secure the deal. Hence the overall negotiation process was influenced by relationship building as stated by the Head of Purchasing;

*“See the relationship is very important honestly when you are building a relationship with the vendor it gives us chance to see how good they are and whether we can get*

*along with them, and if they cooperate with us in main dealings and everything goes smoothly then we know we can trust them and work together in the future deals by renewing contracts. Also, by establishing strong relations we can make necessary amendments to the deal even after the negotiation. I give you an example, that government puts some health safety warning on branded honey or Mars and Snickers chocolates having excessive content of sugar due to quality control purpose and we know the public will not buy a lot so we cancel or reduce the order by negotiating with our supplier. This is possible because we have a good understanding because of good relations and we take our suppliers for a treat occasionally following orders from our top management once the deal is successful.”*

### **5.6.3 Cognitive**

The cultural aspect had a significant influence on the negotiation process as both parties had different cultural background, priorities, and perception. During the pre-negotiation stage, the buying side stressed it was essential to verify the supplier’s credential prior to proceeding into the next stage. By doing this the buyer side was able to identify the trust and reliability of their counterpart. Therefore, the trust factor was significant in influencing the negotiation in every stage.

“Trust is absolutely important when we deal with our suppliers, especially in our business when we deal with food items we need to know if we can trust them with the quality and their punctuality for delivering products as agreed. Our business is mostly

done on credit payment terms which means we usually pay later and buy first but sometimes supplier demands advance payment so we need to ensure that supplier is reliable by cross-checking with our other buyers who deal with them or suppliers that know them. So trust is very important in our dealing because we need assurance from them that they will have some sort of commitment, for example if we agreed for exclusivity rights we mean it and they must not sell to anyone else in market, and if we agreed on good quality product we don't want any compromise on quality when they deliver us with any defect", says Head of Purchasing.

The topic of halal (permissible food in accordance to Islamic principles) was at the forefront at the time of face to face negotiations with suppliers because 'halal' definition was not limited to the prohibition of pork or alcohol content only but it had broader effects on products. Moreover, the boycott of certain branded products also had significant effects as the deals for such branded products had to be cancelled to observe the boycott.

*"Halal food is the outline for us when negotiating food products, but just because beef is halal for us doesn't mean beef gelatin in sweets or chicken powder in noodles can be halal because the animal wasn't sacrificed the halal way. Also the case of Nido milk powder is famous example when Saudi government and other Islamic nations decided to ban and boycott anything from Denmark and I myself being a Muslim was hurt when someone insult our religion or prophet,"* Says Purchasing Manager.



The role of time also served as an important meaning for buyers during the negotiation process. The buyers' side took their time and thoroughly researched before placing the order or drafting the contractual agreement in pre negotiation stage. This was because the company had a system to follow where approval came from top management after everything was reviewed. On the other hand, the supplier constantly keeps indicating to speed up the process for proceeding to a subsequent stage and complete the deal.

*"I would say we are very conservative and specific when it comes to ordering new products and do our research, and present to our top management, and once he approves the order or gives me a price limit to be negotiated then only we proceed to the next stage. This is our way of dealing and the suppliers should adjust to this as a customer we can take some time. Often during negotiation they want to place their priorities first and push us to accept large order quantity with small discount but they don't realize that we are the buyers and we know the market demand and what consumers buy during which season. We hate when our suppliers rush through the deal and think we should agree to their choice of products and terms just because they feel they have branded products they should understand that we have more power in negotiation as there are many suppliers in the market and we like to take our time.",*  
*Says Head of Purchasing.*

## **5.7 Findings Gulf International (Supplier)**

### **5.7.1 Regulatory**

The country Laws played an important role not only in Saudi Arabia but also in the UK where the supplier registered. The supplier generally exported to Saudi Arabia and other gulf countries. Apart from fundamental formalities such as company registration, there were other important legal matters such as export and import licenses from both countries since A. S Gulf International supplied directly to the buyers and imported to store in their warehouse based in Jeddah, Saudi Arabia. Without any license, the supplier would not be able to initiate any negotiation. Moreover, rules and regulations from the Saudi legal bodies influenced the negotiation process for the supplier as these were brought in the pre negotiation stage with buyers.

*“Doing business without registering and acquiring an export license from the Department for International Trade (TID) and sorting our tariffs there is no hope for international business as it is against the law to export. And in Saudi Arabia, our company had to register with government bodies such as Saudi Standards, Metrology and Quality Org. (SASO) and Saudi Food and Drug Authority (SFDA) because most of our export is food and confectionary items. Then we also have other bodies such as Saudi Ministry of interior where the company has to follow laws regarding ministry of labor. So all these legal formalities come before we do any negotiation for exporting items as no buyer will buy from us until we are registered”,* says Director.

Environmental factors such as trade boycott from certain countries by Saudi government due to diplomatic rift also influenced the face to face and post negotiation

stages. Due to these external factors revocation of some items from existing deals were discussed between buyer and supplier during the face to face negotiation stage. This also affected the post negotiation stage as deals were either kept on hold or were withdrawn. *“In certain cases, we are informed by our buyers that import of some products from some countries are banned and we have to stop dealing. For example, recent case was Canadian products which we supplied in the past”*, says Director.

There were specific rules and regulations specified by SFDA pertaining to the prohibition of food items content that influenced the negotiation deal. The buyers were very particular when it came to labelling of prepackaged products. It was mandatory for all imported products to be labelled in Arabic and include; date of manufacture and expiry in sequence, country of origin, information of nutritional values. Moreover, the halal food label was an important subject that was reviewed during formal stage of negotiation but also the warning issued by the SFDA regarding certain ingredients that were harmful for consumption such as palm oil, colouring agents, and additives. An extensive report published by SFDA was consulted and discussed during the pre-negotiation stage so both parties were aware of the regulations and supplier clarified any issues.

*“The labelling standards set by SFDA and SASO always threatens UK exporters as the regulations constantly keep updating and this becomes a nightmare for supplier as we already shipped the goods. All of sudden they introduce new regulation that all dietary products or baby food should be registered with the Ministry of Health department. So*

*this something we as suppliers struggle to explain this issue to our buyer during negotiation”, says Director.*

### **5.7.2 Normative**

The use of nepotism known as ‘Wasta’ in Saudi culture was a common practice between the buyer and an influential supplier. It occurred when another supplier with strong relations with the owner of buying company sealed the deals easily. The practice of nepotism can influence the formal stage of negotiation at the time of deal-making. Furthermore, occasionally the supplier had to keep the third party agents satisfied by bribing them in monetary and non-monetary terms. This act usually takes place at the post negotiation stage at the time of customs clearance. Another unethical practice found was the failure to keeping up with the promises regarding payments on time. In most cases, the buyer purchased the goods on credit terms from the supplier but the supplier had already settled the payments with the manufacturer. The payment delays were often practiced by the buyer and supplier had to suffer during post negotiation.

*“The concept of ‘Wasta’ (getting things done easier way) is widely practiced and I have experienced when our deal was almost cancelled when another supplier jumped in to supply the Kellogg’s cereal just because he knew the owner personally or they had mutual interests for something else outside the business. It really felt like we ordinary suppliers had to go through a lengthy process of negotiations and someone else gets special treatment”, says Sales Manager.*

Use of contract during negotiations between buyer and suppliers took place in pre negotiation and face to face stages of negotiation. The buyer prepared drafting their terms and conditions in pre negotiation stage, as it was often the case when the buyer first sends their provisional contract to the supplier in this stage. The supplier then amended their terms based on the demands and timeline received from the buyer. Contracts were important because it acted as a legal binding document which represented the agreement of terms and condition between both parties. The contracts were finalized by the formal stage of negotiation and were exchanged.

*“Contract is very important in negotiation deal and without contract, it means the deal is still incomplete. We never supply anything to our buyers without any contractual agreement because how can we prove at a later stage if any dispute or disagreement takes place between us. And by law for the purpose of audit or inspection we need to keep a record of contracts and everything that happened between us and the customer”,* says Director.

The concept of relationship building was widely practiced throughout the entire negotiation process and perceived as an important aspect of negotiation. It was regarded as the opportunity to impress and increase the chances of winning the deal. The objective of supplier side of negotiators was to establish trust and convince their counterparts that they can do more than just delivering the goods. At the pre negotiation stage, the suppliers adapted their counterpart’s culture by agreeing to their terms and way of doing business. During the formal stage of negotiation the supplier side focused on listening to the buyer and tried building cooperative atmosphere by agreeing to their

demands and countered them with their terms that included large purchase order and extra delivery time.

*“Building good relations is extremely important in KSA. As a supplier the most important thing for me is to understand what my buyer wants and how should I fulfil his demands. I know before dealing with them that we have to forget how we deal in UK and change our attitude that makes Saudis happy. It is very important to understand their culture and who is important person in their deal making and how to please him, and what he prefers. This can only happen if we get to know them better by engaging and building better relations with them.”*, say Director.

### **5.7.3 Cognitive**

Trust was perceived as part of Saudi culture’s business practice and suppliers had to adapt dealings accordingly. For example, once the trust has been established by both parties in the pre-negotiation stage, the trust element was fragile and impacted the deal if suppliers demanded advance payment from buyers during the formal stage of negotiation. The negotiators from the buying side got agitated and believed the suppliers are not trustworthy, as they are more focused on payment. The buyers preferred that suppliers acquiesce to their method of dealing.

*“We need to prove them they can trust us and we can work together. In Saudi market its different culture, you can’t just turn up to them and ask them to buy your products even if you have top brands without becoming friends and establishing a good rapport*

*with them they really don't care who you are. Having trust in negotiation - it really helps in exchanging favours.* Sometimes we have trust issues on late payments and we agreed on payment upon delivering good and they delay the payment until end by making excuses that their accounts team will clear all payments along with other suppliers. We are used to this and generally, all Arab buyers have a negative reputation when it comes to payment”, says Director.

Apart from the importance of 'Halal' food products during negotiation, the role of religion has more effects on the formal stage of negotiation. During face to face negotiation, the buying party's negotiators kept using Arabic phrases such as “*InshAllah*” meaning if God wills to happen, “*Alhamdulillah*” meaning thank God, “*Wallahi*” meaning by God. These Islamic expressions were frequently repeated by them to verbally show their commitment when moving forward, and sometimes to negotiate the price by bringing the serious word by God. Moreover, the setting of the meeting room had Islamic texts and souvenirs of Makkah Clock tower building and portraits of Holy mosques Mecca and Medina, and the office dedicated mosque where everyone prayed together at the time of prayer.

*“There is no doubt that Saudi Arabia is an Islamic country and religion plays very important role there in almost every aspect of development from governing laws to business activities. So Islamic values also affect the negotiation as we are not allowed to have any animated print of piglet and Santa drawings on the chocolates and cereals we get during Christmas as this might hurt the sentiments of people”* Director.

During face to face negotiations, time was not limited as the duration varied up to an hour or longer. The supplier side didn't like to rush things during formal stage of negotiation and took their time discussing deal along with other non-business related topics. However, the time had consequences for supplier when there was a delay for the delivery of goods.

“By now we are used to their time as they take their time to start the negotiations and their boss would join and leave anytime. Usually, the buyers choose the time and date for negotiations in their office. The delivery of goods is given high importance during negotiations as it made clear about the penalty for late delivery.”, says Sales Manager.

#### **Highlights of Regulatory, Normative, and Cognitive Constructs:**

Rules and regulations of the government bodies such as SFDA had restrictions on certain product items and specific requirements for fish related products. In addition, the demand and supply concern due to political situation of the market including war and inflation in the government fees. Rules and regulations related to export and import license. Environmental factors such as boycott leads to abandoning the existing deal. Packaging, labelling, and printing rules set by SFDA.

Blodgett (1991) found that in many cases between foreign and local businesses, governments tend to impose more restrictions to give an advantage to local businesses when negotiating with their foreign partners. Fang et al, (2008) in their paper about success and failure factors in business they claim that changing environment factors



such as institutional legalities have an impact on the success and failure outcome of international business negotiations

#### b) Normative

The unethical practice of gift sharing in return of the favour, over-exaggeration to satisfy the buyer, tactics employed by suppliers to acquire sensitive information, false promises and sale of inferior quality goods. The contracts are an essential part of the negotiation completion, consisting of detailed information about the deal. Strong relations can make amendments in concurrent negotiation deal without a conflict.

Relationship building concept is associated with the Wasta concept for getting things done swiftly. Adaptation to buyer's cultural value of building relationship for to better negotiate. The practice of 'Wasta' has significant influence in decision making as well as getting things done with ease (Khakhar & Rammal, 2013). It can, therefore, be argued that the concept of nepotism is regarded as an influential norm in Arab culture and can be a useful tool for the negotiators.

#### c) Cognitive

Trust is essential to validate the credibility of the supplier and no compromise on quality and quantity agreed during the negotiation deal. Religious values are important for the food ingredient, controversy on religion, and provoke a conflict. Similarly, punctuality of order delivery and fast-paced negotiations are unwelcomed by the Saudi buyers.

The religious values are important for the import of halal food and religious expressions were practiced by the buyer to express commitments of moving forward.

### **Overall Negotiation between Manuel (Buyer) and Gulf International Trading (Supplier)**

#### a) Pre-negotiation stage

During this informal stage the buyers meet with their existing and prospective suppliers in annual exhibition. The purpose is to find out the new products and suppliers in the market. with their current UK supplier the a very casual meetings or audio communication is done to enquire about new products or upcoming deals.

*“The main purpose of communicating before the negotiation is to plan and prepare for the purchase order in small details,”* says the Marketing and Sales Manager, Manel.

#### b) Face-to-face negotiation stage

This is the main stage of negotiation where all bargaining, contracting, and possible deal completion takes place. The Meetings take place in the buyer’s head office and the during the formal negotiation the buying team consist of 3-4 members and the supplier 1-2. The duration of the face-to-face negotiation varies and also the frequency of re-negotiating depends on the nature and complexity of the deal.

*“there is no specific time for the duration as these kind of negotiations can last upto hours and can happen over and over until deal is done,”* says the Head of Purchase, Manuel.

#### c) Post-negotiation stage

This stage is either more inclined towards the supplier to make the arrangements of the delivery. The buyer only has to settle the payment once the goods have arrived.

*'After the deal it is my job to arrange the container and delivery of items as agreed in the contract,'* says the Director, Gulf International Trading.

Table 9: Main Quotes from Interviews between Manuel (Buyer) and Gulf Trading Int. (Supplier)

<p>Saudi Buyer Manuel</p> <p><i>"Logical reasoning is very helpful to convince the supplier to offer a reasonable price during negotiation" Purchase Manager</i></p> <p><i>"Gifts always come with accommodating requests for favours" Head of Purchasing</i></p>
<p>UK Supplier Gulf International</p> <p><i>"Strong relations with the buyer can do wonders in negotiations to secure a deal easily" Director</i></p> <p><i>"During negotiations you either adapt their preferred style of doing business and increase the chances of winning the deal or be reluctant with your way and risk losing the deal" Sales Manager</i></p>

## Case Analysis Between Manuel (Buyer) and Gulf International (Supplier)

Table 10: Overall Negotiation Between Manuel (Buyer) and Gulf International (Supplier)

<b>Institutional Impact</b>	<b>Pre-Negotiation</b>	<b>Face-to-face Negotiation</b>	<b>Post Negotiation</b>
<b>Regulatory Dimension</b>	<b>Strong</b>	<b>Strong</b>	<b>Weak</b>
Law	++	++	-
Environment	+	++	-
Regulation and policy	++	++	+
<b>Normative Dimension</b>	<b>Average</b>	<b>Strong</b>	<b>Strong</b>
Ethics	+	++	+
Relationship Building	++	++	++
Contract	+	++	++
<b>Cognitive Dimension</b>	<b>Average</b>	<b>Strong</b>	<b>Average</b>
Cultural system	++	+	+
Beliefs	-	+	-
Values	+	++	++
<b>Aggregate Evaluation</b>	<b>Average</b>	<b>Strong</b>	<b>Average</b>

The regulatory component had a strong influence on over negotiation. In the pre negotiation stage, Saudi Arabian country law influenced the decision regarding the criteria for product eligibility and it was in this stage where the products were rejected

by the buyer they did not comply in accordance to the law. It also influenced the formal stage where both parties exchange their views in relation to the new rules that influence the pricing strategy and product selection during face to face negotiation based on new tariff system of importing country. *“Because of new tax system, there is an increase in the price of goods so we try to sell alternative products of the same category which are slightly cheaper so that it will balance the price including the VAT.”* Director - Gulf International.

The political environment of Saudi Arabia highly influenced the negotiation between both parties when the government imposed a ban on the import of Canadian products. There were repercussions for both parties when they had to withdraw from deals related to Canadian products. *“When the government issues an order we have to follow and there is no other option, we had to cancel the deal”*, Director Gulf International. In this case, a contingency plan was referred in the formal stage where both parties had to reach an agreement of cancelling the deal in a most coherent manner and the agreement was used as an evidence document in case the buyer had to prove the Saudi authorities.

Rules and regulations had a strong influence in pre and face to face negotiation stages, and average in post negotiation. In the pre negotiation stage, the supplier was given an option to either register with SFDA and other bodies themselves or allow the buying side to register them by charging an extra fee. Moreover, the formal stage is also influenced by rules and regulation as both parties revisit the legal guidelines and review any drawbacks it may have on the deal. *“Any error when dealing with regulations set*

*by Saudi agencies can have a negative impact on the deal because our shipment is held by Saudi Customs for investigation and this affects the trust we have built with our buyer because for a retailer not having stock in their shelves is not good for customers”,* Director Gulf International.

Role of ethics in negotiation had average influence where the supplier side repeatedly offered gifts to buying in the pre negotiation stage in order to please the negotiators so they accept their demands. The practice of exaggeration and lies during the formal stage of negotiation was common by the supplier in order to secure the deal and to convince the buying side of negotiators about the quality of products. Notwithstanding of supplier’s claim the quality was proven to be unsatisfactory which resulted in led to the termination of contract renewal for those particular items. Moreover, in the post negotiation stage, it was common for suppliers to bribe the government official in order to overcome hurdles. The Director of Gulf International described the significance of nepotism for the negotiation purpose as *“In KSA it is more about ‘Waasta’ the more connections you have with people it acts as a door opener for you and it can help you in every aspect of business”*.

Concept of relationship highly influenced all three stages of negotiation and was equally regarded as quintessential by both parties in this case. The supplier side initiates building relationship with the buyer by contacting them and offering a new range of products. During pre-negotiation stage buying party assess the suitability of supplier on the basis of credibility, reliability, and more importantly trust to decide if they can together prior to the formal stage of negotiation. During formal negotiation, the suppliers

exercise relationship building by accepting their counterpart's terms and adapting to their way of dealing. On the other hand, the buyer reciprocates by offering concessions by accepting the proposed price offer and also amendments in terms and conditions of the contract. Following the successful negotiations and relationship building the contracts for further negotiation were renewed by the buying party. "Once we think they have done a good job without any issues and if they have any new proposal for products or want to renew the provisional contract for next order we usually proceed", says Head of Purchasing – Manuel.

At the initial stage, a provisional contract with standard terms and conditions was drafted by the buyer is given to the supplier. This included the exclusivity right terms that restricted supplier to sell certain items to anyone in the market. The main idea of handing initial contract was to provide supplier with an opportunity to prepare their terms and condition before moving forward to the next stage. In the formal stage, the influence of negotiation was high as both parties negotiated on the basis of terms to reach a contractual agreement. In this case, the buyer side of negotiators were fixated negotiating for credit payment terms and the supplier side insisted for advance payment. *"Most of the time deals are based on credit terms and payment upon sale are usually for small orders, but accepting the deals based on credit terms work out better for price and are suitable for continuous orders so we usually go ahead with credit terms"*, says Director – Gulf International. Contractual agreements also influenced the post negotiation stage in which both parties amend the terms and refer to them in case

of deal renewal for prospective orders. Therefore contractual agreements are crucial to avoid impasse of negotiation between both parties.

The cultural differences influenced the pre negotiation stage where the supplier had to adapt to buyer's way of doing business and accept the fact that buyer side of negotiators had more influence on decision making regarding the key elements of the deal. For a supplier to become aware of their counterpart's likes and dislike was imperative for progressive negotiation. On the other hand, the religious belief had no direct impact on negotiation except the consideration of halal food content and prohibition of print that could have an adverse impact on Islamic values. *"Islamic values should not be taken for granted when dealing in Saudi Arabia, especially in our case when most of the export is food-related and we have to make sure, not only ingredients comply with SFDA standard but also the packaging and labelling otherwise we risk for fine and no deal"*, Director – Gulf International.

## **6. Comparative Case Analysis**

**Introduction:** The previous chapter explained and analysed each case individually with the aim of identifying the influence of institutional constructs on complete negotiation process. This chapter is will attempt to incorporate both chapters by conducting a comparative analysis. This will involve comparing and contrasting of key patterns between different stages of negotiation of all cases in order to draw conclusion which can lead to answering the research questions of the study.



## 6.1 Consolidated Analysis

In this section unlike the previous within case analysis which focused on the individual case. This section aims to analyze more comparatively with all cases and highlight the key feature of each case, showing how they differ from the others in order to draw conclusions.

Table 11: Consolidated Analysis of four cases

<b>Institutional Impact on Overall Negotiation</b>	<b>Panda &amp; CPT</b>	<b>SAWACO &amp; John Crane</b>	<b>Bindawood &amp; Allied Int.</b>	<b>Manuel &amp; Gulf Trading Int.</b>
Regulatory	+	+	+	++
Laws	+	+	+	++
Environment	-	-	+	+
Regulations and Rules	++	++	++	++
Normative	++	++	++	++
Ethics	+	+	+	+
Contracts	++	++	++	++
Relationship Building	++	++	++	++

Cognitive Cultural	+	+	+	+
Cultural System	+	+	+	+
Religious Beliefs	+	-	-	-
Values	+	++	++	++

## 6.2 Analysis of Regulatory Influence

### 6.2.1 Country Laws

Influence of the country laws appeared as average in three cases mainly because the influence of country laws were not in direct effect at the stage of face-to-face negotiations. However, in the case of Manuel and Gulf International Trading, the supplier had their distribution office in Jeddah, Saudi Arabia. Hence the country laws influence was high in comparison to others. *“The laws of the country are important in every way but for our company, we have to follow the UK as well as Saudi laws because our warehouse is there and constantly new laws are implemented from Ministry of Interior for Iqama renewal (residence permit), Ministry of Labour, and even Chamber of Commerce for our foreign investor license and more from other agencies. So country laws have a big role to play in this business especially when you are dealing with food products import-export.”*, said Sales Director. It can be argued that the key reason for the magnitude of the influence of the country laws on the overall negotiation by the country laws was because the supplier had to comply with the laws of both Saudi Arabia

and the UK, and the negotiation deal involved food products where country laws played a stronger role.

Identically, Panda and CPT also had dealt with food products but the country law influence was average mainly because the supplier had no Saudi based office and the buying party usually informed their supplier about the changes in country laws. This was dealt with in the pre-negotiation stage. In this case, the law influenced pre-negotiation on an average level *“We inform to our suppliers beforehand about the changes in Saudi laws for example 5% VAT and what they need to prepare from their side and we discuss these formalities in the beginning to familiarize the implications of new laws on the deal”* said Head of Shopper Marketing, Panda.

On the other hand, SAWACO and John Crane experienced average influence on the negotiation process mainly because their deal consisted of specialized machinery and equipment as compared to the other cases which were related to food and non-food products. Dealing with the import of machinery and equipment excluded the additional sugar tax issue relevant to deals pertaining to food products. However, Saudi law influenced the purchase deal as SAWACO, being a water provider had to succeed in both audits and quality checks by the Saudi Government, and also meet the water standards set by the Saudi Water Ministry. As a result, SAWACO during formal stage to negotiate with John Crane accordingly in terms of pricing and equipment for the development of water types in conjunction to Water Ministry *“We have been receiving pressure from Ministry of Environment Water and Agriculture (MEWA) to increase our water production capacity to meet the shortage in demand, in order to increase the*

*supply we will need to buy new machinery with advanced technology, and the Ministry revealed their new visionary program which includes new laws and legislations for water providers, changes in tariffs and other related measures. So all this affects our dealings with our suppliers”,* said the General Manager, SAWACO.

Similarly, in the case of BinDawood and Allied International in which both companies were involved in deals related to non-food items such as workwear clothing, gloves, plastic bags and other related products. The implementation of a 5% VAT by the Saudi Zakat and Tax Authority to some extent had influenced the pre-negotiation stage in which the buying side informs the suppliers about the new law that businesses had to comply with. Additionally, during the formal stage of negotiation, the Tax topic also influenced the pricing aspect of negotiation where both parties would bargain for a better deal. Elaborating the negotiation on price the Sales Director of Allied International stated, *“They would come up with reasons related to higher government fees and taxes demanding us to reduce the price and we would negotiate with them reasoning that cost of import and raw material has gone up so we are not able to knock down the price, hence we keep negotiating until we both agree to some price”*. Moreover, the country laws also influenced the post negotiation stage for the supplier by meeting the legal formalities of Saudi Government authorities from company registration to Saudi Customs.

All three stages of the negotiation had average law influence between Bindawood and Allied International negotiations. However, the impact of the country laws were not as high as compared to the case of Manuel and Gulf International because the deal

consisted of food related items which had additional influence pertaining to the laws of the UK and Saudi Arabia. On the other hand, the negotiation deal between Panda and CPT included food related items but the influence of Saudi Arabian Laws was present in pre negotiation stage and did not have an impact during subsequent stages of the negotiation as high as compared to the case of Manuel and Gulf International. The SAWACO and John Crane Company deal pertaining to specialized machinery and equipment had little influence in the face to face negotiation stage as the supplier side of the compliance team were aware of the Saudi laws and hence during the formal stage of negotiation had no such impact.

### 6.2.2 Environment

Political environment appeared to have a weak influence on Sawaco vs John Crane Company, and Bindawood Vs Allied International Trading because both dealt with non-food products and had no association with Canadian brands. Whereas the other two cases were involved in negotiation deals comprising of Canadian products and therefore the influence of the political environment was to some degree as the deals that included Canadian products had to be withdrawn.

The political environmental influence related to country boycotts and diplomatic feuds influenced the face to face and post negotiation stages of two cases; Panda-CPT, and Manuel-Gulf Trading. It was mainly because of political issues that led to the diplomatic feud between the Saudi Arabian and Canadian governments which affected the import

of Canadian products in Saudi markets. Moreover, the ongoing gulf war also created a sense of uncertainty among UK suppliers for doing business on a long term basis. Between Panda and CPT, environmental factors influence on the overall negotiation was weak since the buyer had little concern over the political situation as Saudi retailers were not affected significantly by the Yemen war and deals pertaining Canadian products were on small scale and were not finalized with CPT. On the other hand, the negotiation was influenced to a greater degree between Manual and Gulf Trading as one of their ongoing deal was withdrawn during the post negotiation stage due to the Canadian boycott.

Whereas, SAWACO and John Crane had no political environment influence on their negotiations as neither had any concerns from the gulf war. However, some economic factors, such as inflation, had a little influence on the face to face negotiation stage. Similarly, in the case of Bindawood and Allied International Trading, there was a minor effect from the Yemen war from the supplier's perspective causing uncertainty at the post negotiation stage regarding future deals. *"Sometimes we are worried what would happen to our stock, imagine the deal is completed and upon delivering something happens to the shipping container due to unforeseen circumstances such as war, then like all businesses we will be affected too. So we constantly have to think about alternative solutions in case of emergency"* explained the Operations Officer- Allied International Trading.

Analyzing the influence of environmental factors, it can be argued that the political influence was weakest in SAWACO – John Crane mainly because of their involvement

in the water desalination industry as compared to the retail cases such as Manuel-Gulf Trading, and Bindawood - Allied International which were involved in the deals related to Canadian products and, as such were impacted on an average basis. Furthermore, the Panda and CPT being retailers were least affected by the political factors because both parties were in the process of finalizing their deal on Canadian products for the first time and incurred no significant loss.

### 6.2.3 Rules and Regulation

The influence of rules and regulations on the negotiation process was overall strong for all cases. For Panda-CPT International during the negotiation process, rules and regulations set by the SFDA influenced the overall negotiation process. The buyer and supplier in the pre negotiation stage signed a memorandum of understanding to comply with rules and regulations set by the SFDA throughout the negotiation process for all forthcoming deals. The updated rules and regulations set by the SFDA were reviewed by both parties during the face to face negotiation stage. Ultimately, post negotiation was also influenced by these regulations as the supplier complied with the requirements set by the SFDA including the labelling criteria which was assessed by the Saudi Customs Authority before the clearance.

Concerning the case of SAWACO-John Crane, the rules and regulations impacted the buyer in the pre negotiation stage as it had to acquire a license from Saudi Aramco and the Water Ministry before placing the order for equipment. During the face to face negotiations, specific details were discussed with the supplier and compliance with

regulatory bodies was reaffirmed. Moreover, in the post negotiation stage, the customs clearance required certification of compliance before the machinery and equipment have been released for the delivery.

For Manuel-Gulf International Trading during pre-negotiation food quality standards were highlighted. During the face to face negotiation stage, specific aspects pertaining to rules and regulations set by SFDA and SASO were revisited to ensure they were met adequately from the temperature of the warehouse to the prohibition of ingredients such as colouring agents and product basic labelling requirements in accordance with Saudi government bodies. Post negotiation was influenced by the rules and regulation of the Saudi Customs Authority as the supplier had to provide relevant documents.

In the pre negotiation stage between BinDawood-Allied International Trading, the supplier was required to provide a product test pass certificate for their specialized gloves which was required at the time of registering with SASO. During the formal stage of negotiation, plastic components such as biodegradable materials were reviewed by both parties in accordance with the specifications required by the SASO. The rules and regulations set by the quality standards body also influenced the post negotiation stage because the labelling, packaging, and printing on the products were checked by the customs along with the clearance documents to determine whether they complied with the quality standards.



*“Everything from the size of the glove to the material involved in making needs to be as per the regulations set by their standards body SASO before the products can be brought into the country,”* said Sales Director-Allied International Trading.

It can be argued that in the rules and regulation had a strong influence during the pre-negotiation stage for all buyer-supplier deals. However, there were minor differences in the way they were influenced by the regulatory bodies. This can be drawn highlighting non-food negotiation deals for the cases of Bindawood-Allied International and SAWACO-John Crane which were involved in a different level of engagement with the buyers in the pre negotiation stage and also regulations by government bodies differed in comparison to that of the other two cases which dealt with food negotiation deals. For example, SAWACO had to take extra measures by obtaining licenses from relevant Saudi Arabian ministries that supervised water treatment in order to negotiate with their counterpart.

On the other hand, during formal stage of negotiation all cases were involved in more specifics pertaining to the rules and regulations by the regulatory bodies in order to avoid any breach in complying with them. However, every case deal differed in terms of quantity, cost, and products which were influenced differently by rules and regulations. For instance, the negotiation deal between BinDawood and Allied international Trading comprised of plastic products which had specific criteria set by the SASO regarding the type of chemical to be used in manufacturing. This led to more discussion and clarification during face to face negotiation between both parties in order to reach an agreement in conjunction with the regulations.

During post negotiation the Saudi Customs Authority played a significant role as each case was required to provide relevant clearance documents related to the items being imported. BinDawood and Allied International Trading had to provide certificates while Manuel and Gulf International were required to provide a contractual agreement to the customs clearance and a declaration about the suitability of permissible food items.

### **6.3 Analysis of Normative Influence**

#### **6.3.1 Ethics**

The influence of ethics was average among all cases but each case was influenced differently. For instance, the Panda negotiators faced bribery offers from CPT International involving gifts and other offers from their suppliers however the offer was refused by the receiving party. Hence the unethical behaviour influenced the pre negotiation stage in which receiving gifts from the suppliers with the intention of securing the deal during face to face negotiation. Moreover, the Panda as a buyer practiced an aggressive buying strategy by cherry picking other suppliers and rejecting their price offers.

The attempts were made to present gifts to exaggerate the buying party negotiator during pre-negotiation stage were regarded as an unethical practice. During face to face negotiation supplier exaggerates and false promises to the buying party about the quality of goods. Moreover, the use of 'Wasta' practice is proven to be effective for deal

completion. The use of bribery to appease the third party agents for the clearance of goods was practiced by the supplier during post negotiations. Further, in the post negotiation stage the buyer delaying payments was perceived as an unethical practice by the supplier.

*“..they would not stop praising us for no reason and act extremely humble before laying out the deal”*, says the Purchase Manager, Manuel.

Attempts of bribery offer by the supplier during the pre-negotiation stage were made to persuade the buying party’s decision-maker to secure the deal. Moreover, discretionary unethical tactics were deployed by the suppliers in the pre negotiation stage to obtain information useful for negotiating price. However, such unethical attempts were thwarted by the BinDawood’s purchasing department and were regarded as irrelevant practices. Consequently, during the post negotiation stage, the supplier was able to bribe the third party agents to overcome legal obstacles such as clearance of consignment from the customs.

During SAWACO-John Crane negotiations, the buying party encountered unethical acts from the supplier during pre-negotiation and face to face negotiation stages. Typically, offers were made by negotiators from the supplier side to the buyer to accept the deal. Moreover, during the formal stage of negotiation, the supplier practiced a very consistent stance and was not willing to negotiate any price on the order and vehemently declining any offer made by the buyer.

It can be deduced that each case had an influence of ethics on the negotiation process differently based on the size of the business, negotiation deal, and unethical factors. Although attempts of unethical acts by the negotiators were encountered by all cases during the pre-negotiation stage but different methods were employed by the negotiators. For example, while some negotiators offered bribery in terms of money and others offered gifts. Moreover, in the case of Manuel-Gulf International, the supplier repeatedly flattered the buyers to accept their proposal.

In the cases of Panda-CPT International and SAWACO- John Crane Company, there was no direct impact of bribery or gift exchange during formal negotiations but misuse of authority was practiced by the Panda since they are the market leader. Similarly, John Crane company exhibited neglectful behaviour during face to face negotiations in meeting the demands of their buyer because their products are exclusive and highly recognized in the market. BinDawood-Allied International trading had reported unethical negotiations during the formal stage as the buying company had strict policies against any such misbehaviour. Whereas face to face negotiation between Manuel-Gulf trading had unethical practices during formal negotiation because certain deals related to fruit and vegetable allowed the supplier for exaggerating and the use of 'Wasta' by the buyer was considered as a norm in Saudi Arabia but the UK suppliers find it to be exceptional.

In all cases suppliers, except John Crane Company were involved in bribing the customs clearance official or third party agents to release their order during the post negotiation stage. It can be argued that the size and the dedicated compliance team of

John Crane Company influenced the post negotiation stage without any legal hindrance in comparison to the other UK suppliers.

### **6.3.2 Contracts**

The influence of contracts has been regarded as strong in all cases as no case or negotiation deal excluded the use of the contract. Even in the case of Panda and CPT international where both parties have been dealing for a long time and trust was established among them still involved contracts during the overall negotiation process but exchanged in the formal stage of negotiation. The director of CPT when asked about using contracts despite strong relations answered *“So what trust has its own place and contract has its own place. In any case, the contracts have to be exchanged between us”*.

Similarly, in the case of SAWACO- John Crane, contracts were prepared and drafted in the pre negotiation stage, exchanged during the formal stage of negotiation, and the buyer referred the contract in the post negotiation stage. The operations officer stated, *“...there is no specific period that contracts are used as they are continuously referred throughout the deal”*.

BinDawood and Allied International Trading exchanged a provisional contract during the pre-negotiation stage, which was amended and exchanged during the face to face negotiation stage. The deal was not completed until the contractual agreement was exchanged between both parties. Moreover, contracts influenced the post negotiation

stage as both parties were required to use contracts as an evidence document for customs clearance and registration with government bodies.

Manuel and Gulf International used contracts in the informal and formal stages of negotiation. In these two stages, both parties exchanged contract until they have agreed on terms and conditions and finalized the contractual agreement in the formal stage of negotiation. During post negotiation, contracts are referred to as an evidence in case any clarification was required to solve a disagreement.

### **6.3.3 Relationship Building**

The relationship building element in negotiation has been considered as a crucial factor in influencing the negotiation process. All four cases had a strong influence on relationship building during the negotiation process.

Relationship building was practiced during the entire negotiation process between Panda and CPT International and the supplier ranked relationship building as the most crucial factor that influenced the overall negotiation. All stages were influenced by the relationship building, but the during face to face negotiation stage, it was used as an important tool for negotiating price and securing the deal.

Identically, in the case of SAWACO and John Crane Company, all stages involved relationship building. In the pre negotiation stage, it was more about getting to know each other and the buyer placed greater importance on developing relationships with their suppliers as it was part of Saudi culture. Reciprocally, John Crane Company

valued the concept of relationship building as it added value to their business and facilitated in securing existing and prospective deals in the Saudi Arabian market.

BinDawood and Allied International Trading also experienced a strong influence from relationship building on the overall negotiation process. It was a norm for the buyer to negotiate with suppliers who valued relationship more than the deal. Therefore, the suppliers adapted to the buyer's preferred way of dealing at the time of face-to-face negotiations. Moreover, the buyer practiced relationship building in the post negotiation stage by celebrating the deal with their counterparts after the completion.

In the case of Manuel and Gulf international, overall there was an overall strong influence on the negotiation process. The suppliers put more emphasis on building relations as it was useful for them in securing future deals. However, during the formal stage of negotiation, both parties took advantage of the relationships to amend and cancel certain elements of the deal without any conflict.

The practice of relationship building has been regarded as crucial by all buyer-supplier negotiators during the overall negotiation process. In majority of cases the, from the buyers perspective the relationship influenced them to achieve a better deal during face to face negotiations. On the other hand, suppliers used relationship building as a means to secure existing and prospective deals.

## **6.4 Cognitive Dimension**

### **6.4.1 Religious Beliefs**

Religious beliefs contributed to the negotiation process of all cases at different stages. In general, the impact of religious beliefs on the pre negotiation phase was weak for all cases, except for Panda-CPT International, which was influenced to some degree during the pre negotiation stage as where non-Muslims suppliers were not permitted to visit sites or hold meetings in the holy cities of Makkah and Madinah due to religious reasons. All other cases had no direct influence of religion on their pre negotiations because their deals did not involve site visits in the holy cities and the buying companies were not as big as Panda buyer in Saudi Arabia.

In the face to face negotiation stage of Panda-CPT International, the influence of religion was strong as both parties reviewed the order specifications from the halal food standards in accordance with Islamic principles to the permitted labelling characteristics such as controversial languages, symbols, and messages. This also influenced the post negotiation stage as the Saudi customs monitored the imports.

The Manuel-Gulf International formal stage of negotiation was influenced by the Islamic expressions used by buyers to negotiate the price. In the case of BinDawood-Allied international trading buyers used the holy month as an excuse for bargaining with their suppliers to reduce the purchase prices. Similarly, SAWACO- John Crane Company had little influence of religion on the negotiation that included delays due to religious holidays. It can be argued that companies involved in non-food negotiation deals were least influenced by the religion factor on the negotiation as specific details on product labelling and ingredients were not covered.



#### 6.4.2 Time

The cultural system comprises of taken for granted elements of the Saudi Arabian culture such as the perception of the time which played a vital role in influencing the negotiation process. In each case, the role of time had an average influence on the negotiation process as an average. During the pre-negotiation stage, the Panda negotiators repeatedly contacted CPT International before the formal stage to ask questions and clarify the doubts.

In the formal stage of negotiation, the buying party negotiators of Panda-CPT International and BinDawood-Allied International utilized the time efficiently and were in the normal timeframe. This was because Panda and CPT International have been dealing with each other for many years and did not involve any extra measures for completing straight forward deals. Similarly, BinDawood buying company adopted innovative measure where most of the questions from both parties were clarified in the pre negotiation stage which not only saved a reasonable amount of time during formal negotiation but also made negotiations much easier. However, in cases of SAWACO-John Crane Company and Manuel-Gulf International, the buying side of negotiators prolonged formal negotiation from the usual time period by discussing topics related to sports and leisure.

*“As a UK suppliers, we are aware that we have to adjust our watches according to Saudi negotiators time. Obviously, it’s a different country and things will happen differently,”* said the Director, Gulf International Trading.

Time also influenced the post negotiation stage as, in all cases suppliers faced penalties for the late deliveries. It was a consistent measure by all buying companies to apply fine on the supplier if goods were delivered after the timeframe agreed. In the case of Manuel-Gulf International, the supplier faced penalties for late delivery and also lost credibility with their buyers which affected future deals as the buyer also reciprocated by paying late for late delivery. It can be argued that penalizing suppliers for the late delivery is not unusual for them as the delayed arrival of goods resulted in a loss for the buying company. Further, such conditions and penalties were written into the contractual agreement which both the buyer and the seller signed.

#### **6.4.3 Trust**

Trust was significantly valued by the Saudi buyers and it was considered as one of the core values that influences the negotiations. Trust had an average influence on the overall negotiation process between Panda-CPT International and a strong influence on three other cases.

Trust influenced the pre negotiation stage between Panda and CPT International as the buyer makes a decision to trust the proposal brought by the supplier regarding the deal. On the other hand from the supplier's perspective, trust was important to the degree that the Saudi buyers even judge their counterparts on the basis of race, complexion, and nationality. In the case of Bindawood-Allied International Trading, the buyer also analyses the compatibility of working with their counterpart and whether they had the capability to adapt to buyer's way of doing business. While cases SAWACO-

John Crane Company and Manuel-Gulf International buyers all placed more emphasis on the criteria of cross-checking their suppliers' credibility to verify their trustworthiness.

In the face to face negotiation stage, the CPT supplier believed the keenness to dedicating more time for buyers during the negotiations also played an important role in demonstrating a willingness to work together which resulted in the establishment of trust. SAWACO buyers perceived trust as an important influencer in the formal stage which helped to avoid conflict escalation and solved disagreements with the supplier. Between Manuel and Gulf international negotiations, having trust established between buyer and suppliers helps in the smooth flow of face to face negotiation and also securing the deal. In BinDawood-Allied International Trading, the trust factor was strongly valued by both parties as it reassured them for long-lasting relations for future negotiation deals.

"...if we feel they are not cooperating or showing less interest then it gives us the impression that we can't trust them. It not just buying and selling here we want them to understand and appreciate us too," says Head of Purchasing-Bindawood.

It was reported by Allied International Trading suppliers that, despite having longstanding relationships with the buyer and trust can be affected by mistakes such as late delivery in the post negotiation stage. On the contrary, in the cases of SAWACO-John Crane Company and BinDawood-Allied International Trading, having established trust played an important role in securing future deals. In the case of Manuel-Gulf Trading international, most of purchasing is done on credit terms and the buyer paid to

the supplier after receiving the delivery, and on some occasions even later. All this is possible with the existence of trust between both parties. "...in this trading line of business you have to take some risk and trust the buyer to make the payment later," says Director, Gulf Trading international.

## 7. Discussion

**Introduction:** In this chapter, the discussion is carried out based on previous chapters of literature review, findings, and comparative analysis which revealed key analytical findings which are presented with the relevant existing literature on cross cultural negotiation. The main components of institutional theory influencing the negotiation process is discussed.

A number of studies in the past have emphasized the importance of institutional theory on various sectors of international business and noted how institutional environment impacts business activities. The main objective of this study has been to investigate influences on cross cultural negotiation through the application of institutional theory. Numerous studies have been done on cross cultural negotiations and different cultural elements that are involved in influencing the negotiation process (Fang et al, 2008; Gelfand & Brett, 2004).

Salacuse (2003) explained how country laws have the tendency to influence the cultural values of organizations and how regulatory and legal aspects also play a vital role in dictating to businesses what is acceptable and unacceptable. He further elaborated the role of government is similar to a relationship or partnership with the corporations and suppliers involved in international business, as government bodies have implicit and explicit impacts on businesses (Salacuse, 2010). As a result the bureaucratic influence of governments, to some extent, influence negotiation results (Shi, 2001). Sigurdson (2004) in their study elaborated on the rules and regulations implemented by governments that can influence the outcome of negotiations as government bodies are responsible for designing the criteria for certain companies involved in the technological industry. In addition, Postigo (2016) in his research suggested that the influence of governments of countries involved in bilateral trade negotiations is high, and the ease of doing businesses is determined by relationships with the of government in that country.

The stated studies have highlighted the influence of country laws and their role in influencing the negotiation process. The role of government bodies has been notable in influencing the rules and regulations that impact buyer and supplier dealings. Although the influence of government has been proven to have a direct influence over negotiations between UK suppliers and Saudi buyers, there appears to be certain gap between businesses and Saudi authorities which results in delays due to bureaucratic systems. However, certain Saudi Arabian bodies, such as the SFDA and the Ministry of Interior have recently adopted electronic systems where businesses can comply with the legal formalities.

Environmental factors can consist of political and structural elements that can affect the parties involved in negotiation (Ghauri and Usunier, 2003). They explain the role of third party agents involved during the negotiation process in assisting the negotiators with legal and economic matters in that country. Moreover, Lewicki et al., (2010) in their research found that the key role of government agents was to provide country knowledge related to rules and regulations of the country that will help negotiators in the deal making processes of negotiations. Mattos et al (2002) in their study sought the significance of building networks with government officials and stressed the importance of negotiating parties to equip themselves with political awareness when negotiating in that particular markets because the government can impact the negotiation process by imposing tariffs. Similar studies by Fang et al., (2008) and Tung (1988) have investigated the influence of environmental factors affecting the outcome of the deal

and the changes in these factors which result in the direct impact on the negotiation outcome.

Political factors have been identified in this study that influence the negotiation process. One of the frequent factors has been the implementation of a VAT by Saudi Authority of Tax and Zakat. In some cases the tax issue influenced the early stage of negotiations, while in others during formal stage as both parties endeavored to negotiate the best possible price. In addition, the use of third party agents by UK suppliers has been useful in acquiring local knowledge as well as in complying with government related formalities such as company registration and company licenses. Moreover, political factors including changes in the government hierarchy and the economic environment, such as the increases in government fees and Saudization rules affecting employment, also influenced the negotiations. One direct impact on the outcome of negotiations has been in cases where products have been boycotted from Canada for political reason and both parties were required to withdraw from dealing in related products.

The use of contracts in negotiation processes has been researched by many researchers in the negotiation field. Roxenhall and Ghauri (2004) in their study found that contracts are exchanged in negotiations for communication, conflict avoidance, and uncertainty over future deals, and the exchange of contracts acts as a norm when it comes to sealing the deal. They have also, emphasized that the importance of using contracts during larger deals tends to be significant. Marsnik and Thompsons (2013) also emphasized the use of contract becomes essential in buyer and supplier deals not

only limited to technology industry but also for the business trading sector. Additional findings in research done by Bottom et al., (2006), Ghauri (1983), and Salacuse (1998) have sought to explain the role of influencing negotiation by creating awareness and clarity of the deal, stabilizing the behavior of the negotiators when conflict takes place, and managing the deal in an organized manner. Moreover, contracts can be used for the amendment of deals in unforeseen circumstances, faced by either party, in which they decide to withdraw from the negotiation deal by drafting new clauses in the contract (Salacuse, 1988).

In a contrary move, researchers have argued that in certain deals contracts are not an essential part of the negotiation and are excluded. This highlighted initially around five decades ago by Macaulay (1964) in identifying the exclusion of contracts in business deals because parties involved in negotiation can get agitated if more emphasis is placed on the contract over the relationship of dealing established by the parties involved in business. In addition, Salacuse (2010) concluded that contracts are not the optimum goal of the deal and hence should not be emphasized over the relationship factor in negotiations because, in certain cultures, the use of contracts is not significant but the concept of relationships is.

In this study the contracts have been used in all cases and regarded as a valuable practice. Contracts have been as an official document to refer in case conflict occurs, for the purpose of clarity and assurance, and more importantly the agreement by both parties from where they can proceed to the next stage in the negotiation. Surprisingly, considering the Saudi culture which highly regards the value of relationship building



when doing business yet placed importance to contract exchange and included with their longstanding suppliers as well. Unlike previous studies suggested less importance of contract and possibility of excluding them from the negotiation with negotiators that value culture significantly. However, where parties have been involved in long term relations the buyer in concession to supplier amended certain terms from the contract in meeting their demand such as extra time allowance for the delivery of goods or larger quantity order.

Ethical dilemmas associated with negotiations have been researched by Lewicki et al., (2010) and found that positive ethical characteristics of negotiators can be identified as morals attitude towards the deal and honest practices. On the other hand, unethical practices include lies, corruption, and negotiators not meeting the time scale promised during negotiations and agreed to in the contract. Additional unethical practices by negotiators were excessive exaggeration, use of false promises, and using a strategy to reach the competitors or the network of the counterpart (Alkhatib et al., 2005). And, the use of bribery to obtain key information about the deal or in order to secure the deal by bribing buyer negotiators or other company assets (Lewicki and Robinson, 1998; Nordin et al., 2014). Izraeli 1997 concluded in his study that ethics can be culture specific and what is regarded a normal practice in one culture might be disregarded by the counterpart's culture. Furthermore, deception has also been recognized as an unethical practice during negotiation and that there are negotiators who deceive for the purpose of self-interest, commission, paltering activity, and informational content (Gaspar, Methasani and Schweitzer, 2019).

Ethics in negotiation have been involved in almost every case of this research. In certain cases the buying side practiced ethical behavior by refusing the bribery offers from their counterparts. The bribe offers were refused politely without leading to any contention between parties specifically to avoid conflict. Whereas in some negotiations the suppliers were involved in offering bribery to third party agents in order to overcome legal obstacles. As well, there have been cases of false promises where the supplier failed to supply the agreed quality of products, or delivery time was delayed. In these instances the situation was handled by penalizing the supplier financially.

The concept of relationship building has long been regarded as important element in the negotiation process. In different culture the concept of relationship is valued and given significance when doing business, the concept of 'Guanxi' for example is identified a key element associated to relationship building in Chinese way of doing business (Ghauri & Fang, 2001). In contrary, Arab culture has a similar practice known as 'Wasta' refers to establishment of networks social networks , connection with anyone that can help ease the process of doing business (Hutchings and Weir), and this is often associated with nepotism by the Western people involved in business. Khakar and Rammal (2013) found in their research the concept of 'Wasta' nepotism was widely practiced among the managers as a bargaining tool in negotiations.

Similarly having established strong relationship also helps negotiators in securing trust for future negotiation deals. According to (Yao, Zhang and Brett, 2017) establishing and building trust is equally important in negotiations as the negotiators seek to succeed in securing the deal, and trust is established by the behavior of the negotiators

and their level of communication during the negotiation leads to trust development. Moreover, Lewicki and Stevenson (1997) argued that trust is an integral part of negotiation and negotiators in order to enhance the trust factor the negotiators should establish credibility, reputation for credibility, and behave in predictable manner (pg. 122).

The concept of 'Wasta' has been practiced by the Saudi buyers and proven to be very effective, because in Saudi culture it is very important to have social capital and connections in order to get tasks completed swiftly. Building relationship has been proven to be highly significant factor in influencing the negotiation process. In addition, stronger relationship between parties resulted in establishment of trust. In certain cases the credibility of the supplier is tested in case of late deliveries and their uncooperative behavior during the negotiation. The reputation of the suppliers also matters since at the time of initial deal the buying side undergoes a due diligence procedure to check their suppliers' reputation.

In relation to the impact of cultural differences on negotiation, Tung and Paik (1999) found that cultural awareness served as a key factor between American and East Asian negotiators and a lack of understanding the negotiation style of the Japanese by Americans led to annoyance and conflicts in negotiation. Similarly, according to Lustig (1981) Saudi negotiators regarded their American counterparts as least active when it came to participating in social activities, while Americans believed Saudi negotiators lacked the ability to express ideas clearly. Cultural differences can take many forms and can influence the negotiation process tremendously and the cultural elements of

negotiators can vary from their behavior, to their mindset, to their analytical abilities and more (Kumar and Worm, 2011). Further, Korobkin (2000) identified cultural values, the context of negotiations, and the communication skills of negotiators as the gateways to success in negotiations. It is important to highlight that the subject of ethnocentrism in cross cultural negotiation is highly influential and negotiators should understand that what works in one country may not work in another since nations are unique in many ways (Hendon et al., 1996; Punnett et al, 2006).

Cultural differences have been a crucial cultural element in influencing the overall negotiation process. It is evident that when the cultural background of both parties has been different their negotiation behaviour, communication, and priorities have been different as well. The buying side negotiators expect their counterparts to be aware of Saudi cultural values and etiquette when doing business. In this research, the Saudi negotiators feels their counterparts from the UK are more deal oriented and want to seal the deal and discuss additional business, whereas the supplier side feel their counterparts delay the process and are not prompt or responsive in their communication. Yes, contrary to expectations and despite their cultural differences, all suppliers adapted to Saudi culture during the negotiation process by respecting their buyers and their culture.

When discussing the belief elements of the cognitive cultural environment of institutional environment, it is seen that religious beliefs can also impact negotiations. As researched by Richardson and Rammal (2018) in their study it was found that religious expressions such as *insha'Allah* (If God wills), *alhamdulillah* (All praise is due

to God), and the significance of religion was emphasized as an influence on the negotiation process. For instance, the religious expressions, mentioned above, were practiced by the buying side of negotiators during the face to face negotiation stage when bargaining for a lower price with their suppliers. In addition, during the holy month of Ramadhan leniency was requested by the buying side as working hours are limited. Religious values also influenced the selection of permitted or prohibited products that contain ingredients which are not in compliance with Sharia Law, and the packaging of products is restricted if it contains any sexually appealing pictures or controversial messages, including the Hebrew language. All these factors have been associated with religious values since Saudi Arabia is an Islamic country and home to the two holiest mosques.

## 8. Conclusion

**Introduction:** This concluding chapter summarises the research explains and concludes by attempting to answer the main essence of the research. It also indicates the most influencing constructs proven for this particular research. Theoretical contributions are highlighted based on the incremental contribution towards the theory development. Also, the managerial implications are discussed reflecting on how this research can impact businesses, managers, policymakers involved in cross-cultural negotiations in this market. Certain limitations associated with this research are highlighted and the potential for extending research for future from key findings this research unfolded.

The purpose of the current study was to investigate the influence of culture by casting an institutional theoretical lens over the process of negotiations. Three dimensions of institutional environment were applied to understand their influence on negotiation processes, they are: regulatory environment (country laws, rules and regulations, and environmental factors); normative environment (ethics, relationship building, and contracts); and cognitive cultural environment (cultural differences, trust, and beliefs). The three stages of overall negotiation adopted from the model consist of the pre negotiation stage, the face to face negotiation stage, and the post negotiation stage. As well, the influence of institutional environments on the overall process of negotiations has been studied.

In terms of regulatory the environment, the elements studied have been in relation to how country laws, rules and regulations, and environmental factors of mainly Saudi Arabia influence the negotiation process. The study revealed interesting results of how government bodies have been involved in impacting deal between both parties. The case worthy of identifying is the deal between Manual and Gulf Trading when the Saudi Arabian government intervention affected the import of Canadian products as a result of a diplomatic crisis between two governments. Though other related factors such as the introduction of tax, influenced the pricing aspect of the deals considered in this study. Ultimately, the rules and regulations also strongly influenced both parties involved in negotiation deals pertaining to food-related items. On the other hand, deals that were based on non-food items related in cases of SAWACO and John Crane for water treatment equipment such as mechanical water treatment seals and pumps have been influenced by government bodies such as Saudi ARAMCO and Ministry of Water as well as other specialized bodies in order to assess the standard and quality control.

Concerning the normative environment, the role of ethics has been investigated which revealed some interesting results that correspond with the research finding of other researchers in the past. For example, the use of bribery has been highlighted with an understanding of how suppliers approach the buyers to bribe and what are their motives in doing so, and in which stage of negotiation does this occur. One of the findings of the case from this study revealed that between the negotiation of Panda and CPT International, it is usually suppliers that pursue buyers in a very friendly manner to accept their offers prior to the commencement of the deal and in return how

diplomatically the buying side refuses unethical offer have been studied. On the other hand, the role of relationship building has been regarded as the quintessential factor in influencing the negotiation. The UK based supplier has also identified the relationship building element as crucial and without it there is no possibility of securing a deal. Moreover, the exchange of contracts during the negotiation and their role has been investigated. An unexpected finding of CPT supplier dealing with their buyer for a long time showed the significance of exchanging contracts during negotiations despite the fact how strong the bond of relation and trust is established between both parties.

With regards to cognitive cultural elements, the cultural elements that are usually taken for granted have been studied. This included how the role of religion, cultural system or differences, and trust, influences the overall negotiation process. Taking into consideration the rich Islamic culture of Saudi Arabia, the religious beliefs influenced the formal stage of negotiation as the negotiators from the buying side practiced religious expressions as a tool to negotiate the buying price. Moreover, cultural differences critically influenced the negotiation process. For instance, the Saudi negotiators usually dealt with suppliers who fit in their criterion – that was suppliers adapt to the Saudi way of doing business and blend in their culture. The Gulf Trading emphasized supplier side adapted to Manuel way of doing business as the supplier realized if they cultural elements such as trust and relationship are not focused in the early stage of negotiation then there is a high risk of losing the deal. Moreover, cultural differences also influence in the face to face negotiation stage as any disrespect during table negotiation can lead to contentious negotiation, as a result, create conflict and



negative atmosphere. Finally, the trust factor has also been identified as a crucial factor since the buying side opted to continue doing future deals with suppliers once trust has been established.

It may be concluded that the institutional environment plays a vital role in influencing the negotiation process. However, each component has a certain degree of influence but the cultural elements that comprise of normative as well as the cognitive cultural components appear to have the most influence on the negotiation process.

### **8.1 Theoretical Contribution**

The study has defined the fundamentals of the institutional theory that serve as the key elements involved in influencing the overall negotiation process. The elements of institutional constructs have been redefined to align with the negotiation theory in the context of buyer-supplier cross cultural negotiations. Clearer and Interlinked processes can help in better understanding of the cultural impact on negotiation. Hence by applying the institutional theoretical lens, it has provided a valuable addition to the existing theoretical approach of institutional influence on the negotiations.

The key elements associated with the formal and informal institutions have added value to the existing institutional theoretical framework which can be aligned with the overall negotiation process. Traditionally, the theories applied were limited to cultural influence on negotiation and neglecting the other theoretical elements that are also related to culture. The country laws, environmental factors, and rules and regulation variables considered in this study enabled a better understanding the additional influence of

regulatory aspect influencing the negotiation framework by orienting negotiation strategies in the context of cultural factors. The regulatory dimension not only influenced as an enforcing force on the negotiation dealings but also revealed that its interrelation with cultural elements. The government hurdles which influenced the post negotiation stage were overcome with the help of third party agents. This was part of the host country's culture where it was a norm to practice the concept of nepotism 'wasta' and unethical practice of bribing a government official to secure negotiation deal. However, it was noted how widely the practice of 'wasta' was applied in securing the negotiation deals as it incorporated with the relationship building and networking.

This had interconnection with the normative and cognitive cultural dimensions, as bribery is related to unethical negotiation, an element of the normative institutional construct. It can, therefore, be argued that corruption involved in cross cultural negotiation has a strong link with the country law as part of a regulatory dimension. The religious factor had had a broader addition which revealed hidden factors. Several Saudi Arabian rules and regulations impacted by the prohibition of non-halal food items to ban of anti-Islamic symbols or controversy provoking message were derived from Islamic principles. In particular, the religious expressions practiced by the negotiators for the sake of bargaining price or confirming the progress of deal is also a new development from the theoretical framework of negotiation and the cognitive cultural dimension of Institutional theory.

Therefore, exploring the influence of culture with the help of institutional constructs also contributes to the theoretical findings towards the limited literature in this area. In

particular, the influence of religious belief and ethical dilemmas in negotiation can help understand the negotiation framework in a clearer context. The literature on cross cultural negotiation is immensely covering Asian, Western, and African regions. However, negotiation on Middle Eastern culture, specifically Saudi Arabian is limited and exploring the culture of Saudi Arabia will offer the authentic cultural findings since it is regarded as the Birthplace of Islam and the country that is home to the two holiest mosques. As it was observed that the mode of thinking pattern to make decisions for the Saudi buyers were influenced by the religious values of Islam.

It can, therefore, be argued that the comprehensive application of institutional theory and overall negotiation process has led to additional theoretical development and refined understanding of existing knowledge. In doing so the study was able to obtain rich insights about the key elements that are involved in influencing the entire negotiation process. This has added incremental value to the existing cross-cultural negotiations research with the application of institutional theory.

Negotiation is a vast field within the international business field that has potential for further development. It is practiced in every culture yet the literature on negotiation from the business perspective in the Arab world is sparse, and this study endeavours to bridge the gap. As Geiger (2017, p.1) claims "*questions about what is negotiated and how it is done have received far less attention*".

## **8.2 Managerial Implications**

The managerial implications of this research serve as an aid for the potential MNEs and their management, local buyers involved in negotiations with western suppliers, and their government and policymakers respectively.

The findings from this research will not only assist prospective negotiators entering the Saudi market but also enhance the practical knowledge of existing western negotiators involved in negotiating with Saudi Arabian negotiators. Therefore it serves as an awareness toolkit to for negotiators since cultural awareness has been repeatedly graded as one of the most key factors involved in influencing the negotiation. Cross cultural negotiations are more complex due to their diverse cultural elements and therefore, awareness about counterpart's culture and adapting accordingly are crucial for effective negotiations. Saudi Arabian negotiators embody very distinctive cultural values, idealistic mode of thinking, and communication style as compared to other negotiators. It is, therefore essential for a non-Saudi negotiator, policymaker, and managers to equip themselves with the cultural knowledge prior to initiating negotiation with a Saudi negotiator to adverse the chance of failure.

Apart from the cultural knowledge, this study also presents existing negotiators or the ones seeking to enter the Saudi Arabian market with knowledge pertaining to the regulatory domain and its influence on the negotiation. Similar to its distinctive culture, the Saudi Arabian law is unique as it is an Islamic Shariah law and has a great influence on business activities as well as individual behaviour. The practice of bureaucracy is not only restricted in government organizations but also within companies, rules and

regulations, and government policies are critical factors that can influence the negotiation deal significantly. The practice of bribery, religious intolerance, and discussion about controversial topics associated with the Islam and Saudi Arabian government is forbidden and has severe consequences. These areas are covered in this research to a reasonable level that can at least offer fundamental understanding about regulatory differences to the negotiators engage effectively.

Therefore, it is hoped that all these factors will serve as a useful guide for the negotiators in practice as well as the ones who wish to become one. The act of negotiating is a necessity and therefore should not be taken lightly in cross cultural negotiations. As Kumar and Worm (2011, pg.) observed “We cannot not negotiate; however we do have a choice of negotiating effectively or ineffectively.”

### **8.3 Limitations**

This study mainly in the retail industry with only once case dealing with the manufacturing sector. In doing so the it limits understanding broader results of how negotiation in different sectors influence. On the other hand, all cases representing different industries or business sectors can reveal more rigorous findings. Moreover, from the methodological aspect a more creative technique perhaps the mixed methods strategy can increase the possibility of richer findings with quantitative results as well.

Another limitation is the language barrier as some Saudi native buyers feel difficulty in explaining the complex negotiation experiences.

#### **8.4 Suggestion for Future Research**

In order to make the topic more interesting and focused, the negotiation can be studied at a greater depth by just applying each component of institutional environment to different industries and not restricting to only buyer supplier relation but perhaps mergers and acquisition, negotiations in green-field investments, and diplomatic negotiations. Moreover, the subject of ethical issues in negotiation and religious context deserves more attention and research. Moreover, the topic of nepotism also known as '*Wasta*' and its impact on the negotiation needs to be explored. As highlighted there is a lack of understanding how the concept of *Waasta* is used in negotiations, mainly because of scarce amount of research done on this topic (Whiteoak, Crawford, and Mapstone, 2006).

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