

NEGOTIATION STRATEGIES AND OFFERS

Perceptions of mergers and acquisitions advisors

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<p>This thesis sought to identify mergers and acquisitions advisors' perceptions of their own negotiation strategies in a typical negotiation. Additionally, the thesis examined the potential association between the first offer and a negotiator's perception of his or her own negotiation strategy. This was researched empirically by presenting the negotiators two different first offer negotiation scenarios. In the first scenario, a buyer presented a first offer that was higher than a negotiator's reservation value. In the second scenario, a buyer presented a first offer that was lower than a negotiator's reservation value.</p> <p>The theoretical framework of the thesis was based on the negotiation analytic approach that was theoretically extended to the context of first offers and distributive and integrative negotiation strategies. Additionally, a quantitative and an expert based approach of negotiation research was used. The survey questionnaire, which measured the negotiators' perceptions of integrative and distributive negotiation strategies and first offers, was created with a theory driven approach. Therefore, the survey questionnaires of previous research, such as the Dutch test, BPA II and five-factor model was used as an example when this thesis' questionnaire was created. The research data was gathered from a population of 300 professional advisors of mergers and acquisitions. The cross-cultural sample of respondents comprised of 30 advisors. The responses were received from Europe, Americas and Asia-Pacific. The data was analyzed by means of descriptive statistics, principal component analysis, reliability analysis, normality test and a paired samples t-test.</p> <p>In line with the theoretic framework of the thesis and previous research results, this research suggests that a negotiator's perception of his or her own negotiation strategy, in a typical negotiation, is more integrative than distributive. However, in terms of counteroffer strategies the thesis resulted in a contradictory descriptive finding. In both high and low offer scenarios, the majority of respondents' perceived distributive strategy as their preferred strategy. A key finding of the thesis was that a first monetary offer in a negotiation was associated with a negotiator's perception of his or her own negotiation strategy.</p> <p>This thesis concluded that a negotiator should use more integrative than distributive negotiation strategy. This strategy consist of behavior, which directs a negotiation towards a problem-solving practice, where information sharing and trust is emphasized. In order to achieve this type of negotiation process, the negotiator should always make the first offer, for example, before the letter of intent phase. However, the negotiator should carefully analyze the potential reference values of the negotiating parties, create alternatives and evaluate consequences, in order to make trade-offs. The alternatives could comprise of creative earn-out models, vendors' notes and third party negotiation models. However, the negotiator should acknowledge the high probability that an integrative first offer is countered with a distributive offer and communication strategy. Concerning negotiation goals, the negotiator should have a high level of aspiration, which in this context is the goal of high merger premium.</p>	
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TABLE OF CONTENTS

1. INTRODUCTION	8
2. NEGOTIATION, BARGAINING, MERGERS AND ACQUISITIONS.....	13
2.1 Negotiation.....	13
2.2 Bargaining.....	16
2.3 Mergers and acquisitions	18
2.3.1 Classification of different types of mergers and acquisitions.....	18
2.3.2 Process of mergers and acquisitions.....	20
2.3.3 Negotiation process in mergers and acquisitions.....	22
3. NEGOTIATION THEORY AND RESEARCH RESULTS	25
3.1 Development of negotiation research	25
3.2 Theoretical framework.....	26
3.3 Negotiation analytic approach.....	32
3.4 Previous research.....	37
3.4.1 Characteristics of an integrative and a distributive bargainer	38
3.4.2 Outcomes of research concerning integrative and distributive negotiation	41
3.4.3 Outcomes of research concerning offers and price in negotiations	43
4. RESEARCH METHOD	49
4.1 Research objectives and questions.....	49
4.2 Methodological framework	52
4.3 Method of Inquiry and research design.....	56
4.3.1 Data collection	56
4.3.2 Operationalization of integrative and distributive strategies.....	58
4.3.3 Survey questionnaire	60
4.3.4 Sample.....	62

4.3.5 Respondents.....	62
4.3.6 Analysis.....	63
5. RESULTS.....	65
5.1 Analysis of the mergers and acquisitions negotiators' bargaining strategy scale	65
5.1.1 Principal component analysis	65
5.1.2 Reliability analysis	68
5.1.3 Normality test	70
5.2 Negotiators' perceptions of their own negotiations strategies.....	72
5.3 Association of a first offer with the negotiators' perception of their negotiation strategy	74
6. DISCUSSION AND EVALUATION	79
6.1 Conclusions and practical contributions	79
6.2 Evaluation of the study	83
6.2.1 General evaluation	83
6.2.2 Reliability.....	85
6.2.3 Validity.....	88
6.2.4 Directions for future research.....	90
LITERATURE	92
APPENDIX	101

LIST OF FIGURES

FIGURE 1 Evolution of mergers and acquisitions from 2002 to 2012.....	8
FIGURE 2 Mergers and acquisitions process from an acquirer’s perspective	20
FIGURE 3 Mergers and acquisitions process from the seller’s perspective.	20
FIGURE 4 Direct process of mergers and acquisitions between seller and buyer, a combined perspective.....	21
FIGURE 5 Perspectives of the negotiation process.....	23
FIGURE 6 Reservation value, Zone Of Possible Agreement.....	35
FIGURE 7 Negotiation analytic approach.....	36
FIGURE 8 Distributive gain frame negotiation	45
FIGURE 9 Distributive loss frame negotiation.....	45
FIGURE 10 The effect of first offers on final sale prices in a simulated negotiation over a pharmaceutical company.....	47
FIGURE 11 Example of the thesis’ online based survey statement	61
FIGURE 12 Integrative and distributive factor plot.....	66
FIGURE 13 Scenarios’ differences variable's Q-Q Plot	76

LIST OF TABLES

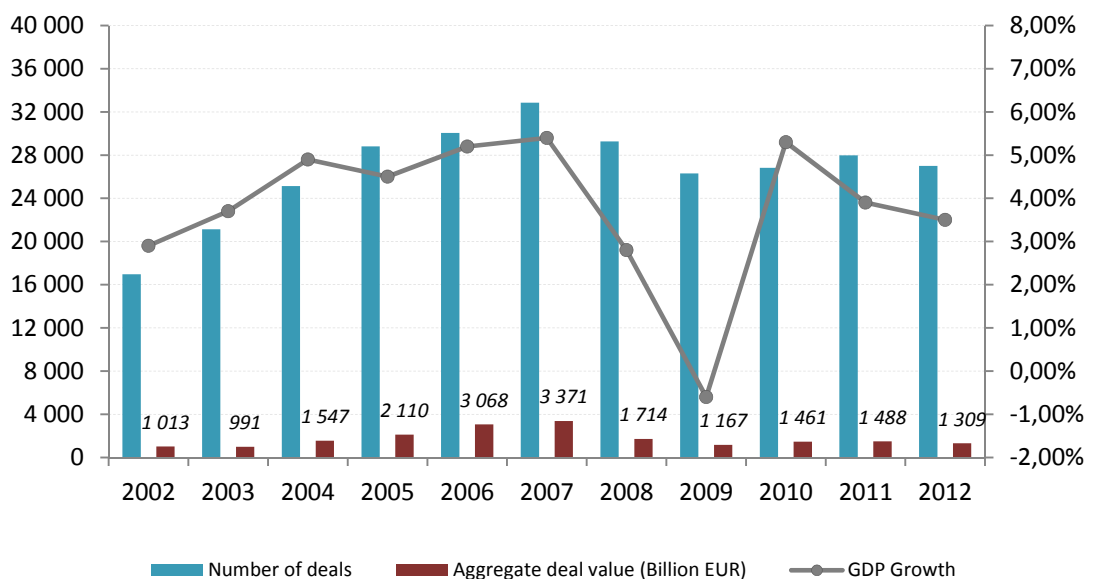
TABLE 1 Overview of the classifications of negotiation research.....	31
TABLE 2 Summary of the distributive and integrative bargainer's characteristics	41
TABLE 3 Factor loadings after rotation	67
TABLE 4 Communalities	68
TABLE 5 Scenarios of the second version of the scale	74

1. INTRODUCTION

During the last ten years, mergers and acquisitions have become globally an important institution for economies, firms, investors and business owners for creating wealth, growth and continuity of business. On average, more than 27 000 deals with a stake of ownership above 50 % have been completed annually in the last decade. The average annual deal value of these transactions has amounted to 1 750 billion euro. This figure emphasizes well, how important the mergers and acquisitions industry is for the global and local economies. In order to understand the magnitude of this phenomenon, in comparison, the Finnish state budget for the year of 2013 was about 54 billion euro (Budjettikatsaus 2013).

Reasons for the increase of mergers and acquisitions have been, for example, continued economic growth, worldwide process of consolidation, synergy development and achievement of competitive advantage through acquisitions of knowledge (Carbonara & Rosa 2009). It is worth pointing out that the financial crisis of 2008, followed by, the European sovereign debt crisis has had a dramatic effect to the global mergers and acquisitions industry. It seems that the global gross domestic

FIGURE 1 Evolution of mergers and acquisitions from 2002 to 2012 (Bureau van dijck zephyr 2012)



product (GDP) is parallel to the annual mergers and acquisitions market trend (Carbonara & Rosa 2009). This can be observed also from figure 1.

In addition to local and global market trends and drivers, various other issues are in connection with the success and failure of mergers and acquisitions. Disturbingly, the scientific literature and empirical findings argue that the majority (50-70 %) of mergers and acquisitions fail to succeed to some extent. Typically, the success or the failure of mergers and acquisitions transaction has been measured to and compared with the final contract price. In other words, the transaction price has been typically the determinant and benchmark that in the future dictates the success or the failure of a mergers and acquisitions transaction. For example, if an acquirer in the future fails to achieve the synergies required to compensate the paid price, then market value is lost, and the acquisition has failed. (Chakravorty 2012, 21-25; Lauriala 2011, 67-68.)

The large rate of failure in mergers and acquisitions indicates that the reasons behind the success or the failure has not been researched enough. The previous research has identified negotiation as one of the key factors behind a successful or unsuccessful merger or acquisition. (Aktas, de Bodt & Roll 2010; Lukas & Welling 2011; Very & Schweiger 2001). Additionally, first offers have been described as the most important feature of most business negotiations (Kristensen & Gärling 1997 a). However, the association between different negotiation strategies and offers has received less attention from researchers. Therefore, by researching the perceptions of professional negotiators concerning negotiation strategies and offers, it is possible to identify reasons behind the successful and unsuccessful merger and acquisition negotiations. Moran and Ritov (2002, 103) argue that a negotiator's perception of an interaction situation affects directly the choice of his or her behavioral strategies. In fact, various empirical findings of negotiation research have indicated that perceptions about negotiation are a factor that effects on a negotiator's strategic behavior and actions, which consequently play a role to the negotiated outcomes and payoffs. These findings are consistent with communication theory in general. For example, the coordinated management of meaning theory argues that intrapersonal meanings are turned into messages during the course of interaction (perception affects behavior). Furthermore,

according to this theory, interacting dyads or groups might have different perceptions (buyer vs. seller). In order to achieve a coherent understanding (a contract), the negotiating parties must interact and experiment with issues (bargaining with offers) and create reciprocal relationships, which improve the life quality of both parties (increase in market value). In other words, negotiation can be described as a process where each party interprets and responds to the acts of others and compares the outcomes to his or her, positive or negative, desires and expectations. (Pearce, Cronen & Harris 1980.) Furthermore, the recent scientific research has resulted in reliable empirical evidence that the perception – behavior relation in negotiations concerning economic issues exists. (Harinck, De Dreu & Van Vianen 2000; Hoffmann, Post & Pennings 2012; Kristensen & Gärling 1997 a; Kristensen & Gärling 1997 b; Kristensen & Gärling 1997 c; Kristensen & Gärling 2000).

From a recipient's point of view, the first message in a negotiation can be interpreted as either competitive and value claiming or cooperative and value adding. Therefore, a poorly communicated first offer might affect a bargainer's ability to notice that value creation and trade-offs, which can lead to greater payoffs for both parties, truly exist in a negotiation (Moran & Ritov 2002, 103). According to Putnam and Holmer (1992, 130-135; See also, Kahneman & Tversky 1979; Thompson, Neale, Sinaceur 2004) framing in negotiation is a way how a bargainer formulates a problem through his or her knowledge and personality. The key characteristics of framing are perceptions of loss versus gain, risk seeking and aversion, anchoring of reference values, overconfidence and judgments (Putnam & Homer 1992). Therefore, negotiators typically evaluate their performance and potential payoffs or losses with a positive or a negative frame. The positive or the negative frame in negotiation might arise from reference or anchor values, which typically are the starting points, i.e., first offers and messages of price negotiations (Kristensen & Gärling 1997a, 279). In fact, the previous negotiation research has indicated that parties with a loss frame end up in impasses and achieve less often integrative "win-win" solutions than parties with a gain frame (De Dreu & Carnevale 2006, 357; Thompson, Neale & Sinaceur 2004, 12).

Murtoaro and Kujala (2007, 726) point out that negotiators use both claiming strategies to increase payoffs to themselves and creating strategies which try to

increase the payoffs of both parties. These strategies can be referred as integrative (value-creating) and distributive (value-claiming), which in the end determine the (joint) payoffs of both parties (Liu & Wilson 2011, 254). Putnam and Holmer (1992, 134) argue that about 40 % of negotiators reciprocate with the same bargaining frame as their opponents.¹ In addition, bargainers who begin a negotiation with the goal of maximizing joint gain typically use integrative strategies more often than bargainers who begin the negotiation with the goal of maximizing individual gain. As a result, it can be argued that these early strategic decisions might create either an integrative or a distributive pattern for the entire negotiation (Weingart & Olekalns 2004, 145).

Even though, mergers and acquisitions negotiations are in this thesis characterized as complex negotiations with various issues and solutions, the thesis argues that the first message concerning a transaction price could be an important factor when determining the reasons of high failure percentages of mergers and acquisitions. This first decision might have an effect to the reciprocity of bargaining interaction between a buyer and a seller, which in the end might determine the overall characteristics of the whole negotiation situation. Therefore, the purpose of this research is to study mergers and acquisitions negotiators' perceptions of their own negotiation strategies. One of the main purposes of this thesis is to find out what kind of perceptions do the negotiators of mergers and acquisitions have concerning their own negotiation strategies in general. More specifically, the purpose is to find out to what extent a negotiator perceives a distributive or an integrative negotiation strategy as his or her own bargaining strategy. The second intention of this research is to find out, what are the negotiators' perceptions of their own negotiation strategies (the in extent of distributive and integrative strategies) in a first offer negotiation situation. More specifically, this thesis tries to determine statistically, if there is a potential association between the first offer and a negotiator's perception of an integrative or a distributive bargaining strategy.

¹ See famous tit for tat strategy by Anatol Rapoport (see, for example, Klein, Faratin, Sayama, Bar-Yam & Yaneer 2003)

This thesis argues that distributive perceptions might lead to a reciprocal distributive behavior, and integrative perceptions might lead to reciprocal integrative behavior. In theory, this means that a buyer's first message including either a *high offer* (higher than the respondent's reference price) or a *low offer* (lower than the respondent's reference price) determines the respondents' perception of his or her counteroffer strategy. Therefore, a high offer should lead to a perception of a distributive negotiation strategy and low offer to a perception of an integrative negotiation strategy.

In addition to strategy and offers, the purpose of this thesis is to study working life professionals. According to Roloff, Putnam & Anastasiou (2003, 803-805) an expert-based approach to negotiation research concentrates on the actions of individuals who negotiate as part of their profession. The advisors of mergers and acquisitions can be characterized as professional negotiators as an important part of their daily profession involves various negotiation tasks. Therefore, these experienced professionals form the population of this thesis.

After this introduction, the chapter two presents the main concepts of this research. In the third chapter, the direction is shifted towards negotiation theory and previous scientific research results. In this chapter, the main idea is to present the most relevant theoretical explanations and research results in the context of negotiation and offers in mergers and acquisitions and outline the thesis based on previous research. The fourth chapter continues with the presentation of the methodological framework, research method and objectives and research questions of this thesis. The fifth chapter presents the results of this research. The main findings, conclusions, reliability, validity and potential future research directions are discussed and evaluated in chapter six.

2. NEGOTIATION, BARGAINING, MERGERS AND ACQUISITIONS

2.1 Negotiation

There are various definitions of the word negotiation in the scientific literature because it is extensively studied multidisciplinary subject, which has a relatively long research history. Communication research has traditionally defined negotiation as a way to determine how resources are exchanged or distributed (Roloff, Putnam & Anastasiou 2003, 804). In the recent definitions of negotiation, the researchers have emphasized that negotiation is a process of interaction. Nevertheless, Weingart and Olekalns (2004, 143) point out that the negotiation process has not been prioritized in the negotiation research. It is notable that researchers' individual perspectives and contexts of negotiation research shape their definitions accordingly. Therefore, for example, there are differences in dispute resolution scholars' definitions compared to communication scholars' definitions, which emphasize different aspects and take slightly different perspectives.

In the recent communication literature, the most common concepts which describe negotiation are: process, agreement, contract, bargaining, mixed motive relationship, interdependence, decision making, argument, independent parties, dispute, problem-solving, persuasion, social interaction and conflict management (Adair & Brett 2004; Gibbons, Bradac & Busch 1992; Morley 2006; Putnam & Roloff 1992; Raiffa, Richardson & Metcalfe 2007; Roloff 2008; Spangle & Isenhardt 2002; Weingart & Olekalns 2004). This thesis has identified two perceptions, which differ from another slightly, from these definitions of negotiation. The analytical and quantitative oriented definitions underline negotiation as collaborative and interactive (joint) decision-making where parties with creative strategies try to maximize their (joint) payoffs. According to this perception, the core of a negotiation is interdependency and interaction between decisions and payoffs. (Gibbons et al. 1992; Morley 2006, 406; Raiffa et al. 2007). The behavioral oriented perceptions stress negotiation as a social interaction where interdependent parties, which have mixed motives, communicate with each other, in

order to achieve their goals. In order to create contracts or acceptable solutions, both negotiation parties need to compete and cooperate at the same time in this communication based activity. (see, for example, Putnam & Holmer 1992.)

In the both definitions of recent research, negotiation parties use, for example, argumentation, persuasion, compliance gaining, conflict management and group decision making as elements of tactics during the negotiation process. However, these activities alone cannot be defined as negotiation, because they are considered as communicative actions, which are broadly applied in a variety of other interaction situations. In addition, negotiation differs from these related types of communication as in the negotiation process parties use strategies and tactics which can aim at mutually acceptable agreements. (Putnam & Roloff 1992, 1-5; Roloff, Putnam & Anastasiou 2003, 801-804; Weingart & Olekalns 2004, 144-145.)

In this research, negotiation is studied in the context of mergers and acquisitions. Consequently, the above-mentioned categorizations and definitions of negotiation are taken into account and merged with the concept of mergers and acquisitions in order to form a synthesis between these two concepts. Therefore, negotiation is defined as a unique interaction process that emerges in the process of mergers and acquisitions, where interdependent transaction parties, a buyer and a seller, who have mixed motives compete and cooperate simultaneously while attempting to create a contract (a share purchase agreement or an agreement to purchase assets) and maximize their payoffs through collaborative joint decision making. During the negotiation process transaction, parties use creative strategies and tactics, which include elements from argumentation, problem-solving, persuasion, compliance gaining and conflict management. Negotiators' are the individuals who are involved in this process as representatives or advisors of either buyer or seller parties.

Distributive and integrative negotiation. Briefly described distributive means a direct and competitive phenomenon (Canary 2003, 531). Distributive negotiation can be defined as a win-lose negotiation, where the negotiating parties try to divide a single good and maximize their individual gain. It is important to point out that a distributive negotiator perceives negotiation as a phenomenon that has a fixed-sum and value.

During a distributive negotiation process, negotiating parties use mostly bargaining strategies which are typically formed from the combination of tactical behaviors such as extreme offers, threats, bluffs, power play, few and unconditional concessions, withholding damaging data, hiding of important information, manipulation, acting as though hostile or indifferent to each other. (De Dreu 2004, 115; Goering 1997, 384; Gouran 2003, 846; Kristensen & Gärling 1997 a, 262; Raiffa et al. 2007, 97; Roloff, Putnam & Anastasiou 2007, 804; Roloff 2008; Weingart and Olekalns 2004, 144.)

On the contrary, integrative means a collaborative phenomenon, where capabilities and resources are joined in order to generate more value (Putnam 1990; Raiffa et al. 2007, 191). Integrative negotiation can be defined as a win-win negotiation, where the negotiating parties try to maximize joint gain, create additional value and find a solution to a common problem(s). One of the main differences compared to the distributive negotiators is that an integrative negotiator perceives negotiation as a phenomenon that has a variable-sum and value. During the integrative negotiation process, negotiating parties use mostly bargaining strategies that are typically formed from the combination tactical behaviors such as clear, honest and open information exchange, innovation and creative problem-solving, joint decision making, concessions, logrolling, focusing on the benefits and workability of proposals, expressing mutual concern, and developing alternatives to reaching an agreement. (DeDreu 2004, 136; Ghauri 2003, 3-4; Gouran 2003, 846; Kristensen & Gärling 1997a, 2; Raiffa, et al. 2007, 191-197; Roloff, et al. 2003, 804; Roloff 2008; Saorín-Iborra 2008, 287.)

The previous scientific understanding seems to emphasize that integrative strategies lead to solutions, which in terms of money are more valuable than solutions created by simple compromise (Bazerman, Magliozzi & Neale 1983, 1-3). According to Goering (1997, 385) the distinction of the two strategies is important, as by studying these strategies, researchers can provide a deeper understanding with both the outcomes of negotiations and the negotiation process itself (Goering 1997, 385). In conclusion, integrative and distributive denote two different types of negotiation characteristics, behaviors, strategies and tactics, which are applied during the bargaining process.

2.2 Bargaining

This thesis emphasizes that a clear and explicit definition of bargaining was difficult to find from the previous scientific literature. Generally, scholars define bargaining in connection with definitions of negotiation, typical definition phrases merging “negotiation and bargaining” and “negotiator and bargainer” as one concept. However, Putnam and Jones (1982, 172) illustrate the differences between negotiation and bargaining from an interactive process perspective. The way of managing conflict in negotiation is done by making trade-offs. Bargaining involves more than performing trade-offs as it is characterized by the exchange of information, argumentation and well-reasoned strategic actions. (Putnam & Jones 1982, 172.)

Furthermore, Ghauri (2003, 3-4) distinguishes bargaining from negotiation through the concept of strategy. Bargaining is described as a haggling process, in which the bargaining parties use competitive, i.e., distributive strategies. On the other hand, *integrative bargaining process is defined as a synonym for negotiation* in which both bargaining parties end up with equally beneficial or attractive outcomes by using a problem-solving approach. (Ghauri 2003, 3-4.) Interestingly Tutzauer (1992) defines bargaining simply as an exchange of offers. Descriptively the heart of bargaining is interactivity, which means that bargainers influence each other and shape each other’s behavior by making offers and counteroffers (Tutzauer 1992, 67-73). Furthermore, bargaining can be complexly defined as an interactive process, in which two parties attempt to arrange an agreement or contract between them by exchanging a series of tentative proposals, which are called offers. The interactivity consists of the bargaining parties attempts to influence each other with different communication based strategies and tactics. Therefore, bargaining can be characterized as a form of joint decision-making. (Tutzauer 1992, 67-70.)

In conclusion, the common element in the definitions of bargaining are the various factors of communication, such as language, information exchange about priorities and goals, communication media, symbols and meanings and strategies and tactics which are the constructing elements of the bargaining concept (Putnam & Roloff 1992, 3-4, Roloff 2008). Furthermore, the exchange of monetary value offers and different

strategies of interaction are identified as the key elements of bargaining.

Consequently, in this thesis bargaining is defined in the context of strategy and monetary value. Therefore, it is slightly more complex process than the process of negotiation, which can also focus on non-monetary subjects.

In the previous scientific literature, two complementing negotiation concepts a distributive negotiation and an integrative negotiation, which both clarify, define and explain in detail the characteristics of strategic interaction, are provided in connection with the definitions of bargaining. The integrative and distributive bargaining strategies comprise of negotiation tactics that the parties of negotiation employ, in order to reach a negotiation goal. The tactics comprise of communication behaviors, such as verbal messages, gestures and vocal overtones. Moreover, negotiators use elements of integrative and the distributive strategies in combination or mix either consciously or unconsciously to create their own negotiation strategy, which can be characterized as integrative or distributive. The way, how a negotiation strategy is constructed from the tactics, can be identified and measured from the form and content of bargainers' communication (Putnam & Roloff 1992, 3-4; Weingart & Olekalns 2004 143).

In this research, bargaining is defined and taken into account as a subset of negotiation. Inconsistently, bargaining is more complex concept than negotiation. Despite this, in this thesis, bargaining is defined from a process perspective, where interaction and mergers and acquisitions are combined into one concept. Therefore, in this context, bargaining is defined as two party interdependent (a buyer and a seller) process of deal making (monetary offers and counteroffers) where negotiating parties use integrative and distributive strategies and tactics of communication in order to find mutually acceptable solutions and create an agreement (a contract) which leads to a transaction.

The independent and interdependent bargaining parties, a buyer and a seller, who interact with each other by exchanging offers in order to create a contract, are individually defined as advisors, negotiators or bargainers of mergers and acquisitions. Subject to this thesis paragraphs below, in terms of simplicity and clarity, in this thesis

a negotiator, a bargainer and an advisor of mergers and acquisitions equals and is referred henceforth as, and is the same concept as a negotiator or a bargainer or a respondent disclosed and determined in the preceding paragraphs.

2.3 Mergers and acquisitions

According to the theory of finance, the fundamental long-term objective of any company's management is to maximize the shareholder value of the company (Copeland, Koller & Murrin 2000; Lehtovuori & Lindholm 2007; Modigliani & Miller 1958; Niemelä 2011). Additional value can be created with mergers and acquisitions that is a strategic process, which aims to increase the shareholder value of a company by utilizing different synergies of two separate companies. These synergies are, for example, economies of scale and scope, extended production capacity, improved production techniques, increased profitability of assets, the use of complementary resources, joint R&D and tacit knowledge and increase of market share. (Chakravorty 2012, 21; Lauriala 2011, 19-20; Lehtovuori & Lindholm 2007; Newman & Oliveiro 2007, 511-512.) The term merger can be defined as a strategic action of joining two or more companies together. The consequence is an entirely new company formed from the pre-existing companies or continuation of a single existing company. An acquisition can be defined a strategic action in which a company purchases a control over the target company's assets or shares forming a consolidated entity. (Chakravorty 2012, 21; Newman & Oliverio 2007, 511-513.)

2.3.1 Classification of different types of mergers and acquisitions

According to Brealey, Myers and Marcus (2007, 571-572) mergers and acquisitions can be categorized into five different types:

- 1) A merger is an action in which one company absorbs assets and liabilities of another company
- 2) An acquisition is an action in which a company takeovers another company by purchasing the target firm's stocks or assets
- 3) A leveraged buyout (LBO) is an acquisition of a company by a private investor, which uses substantial borrowed funds

- 4) A management buyout (MBO) is an acquisition of a company where its own management buys the company with borrowed funds
- 5) A tender offer is an attempt, in which, an outside investor tries to buy the target company's stock from the company's shareholders

Mergers and acquisitions are typically classified in the finance literature on the basis of what kind of transaction parties are involved in mergers and acquisitions or on the basis of how the transactions are implemented. The classifications that emphasize the type of transaction parties are divided into horizontal, vertical and concentric transactions. (Brealey et al. 2007, 572; Lauriala 2011, 19-29.) In *horizontal transaction*, the transaction parties operate in the same industry and the same market. In *vertical transaction*, the parties operate in the same industry but in different segments of the value chain. In *concentric transaction*, the parties operate in different industries but their markets, marketing, distribution channels, technology or R&D is similar. (Brealey et al. 2007, 570-575; Lehtovuori & Lindholm 2007, 4-5; Lauriala 2011, 19-29.)

Traditionally, horizontal and vertical buyer parties are called as industrial buyers. Concentric buyers are typically divided into private equity groups, private investors and conglomerates.

The implementation-based classifications of mergers and acquisitions emphasize the way how mergers and acquisitions are carried out. One of the reasons behind this classification is the tax perspective of the transaction. The implementation-based definitions divide mergers and acquisitions into acquisition of business operations and acquisition of shares. In the *acquisition of business operations*, a buyer party acquires an independent business entity (e.g. a production line) from a seller party. In the *acquisition of shares*, a buyer party acquires majority of the shares or a proportion of the shares of a seller party and becomes the owner of the seller's assets, liabilities and equity accordingly. (Lauriala 2011, 19-29.)

2.3.2 Process of mergers and acquisitions

There are various descriptions of the process of mergers and acquisitions in the scientific literature. Typically, all the descriptions are similar but vary from another in detail and perspective. Very and Schweiger (2001, 12) draw the attention to the fact that the process of mergers and acquisitions involves various activities pre and during the acquisition, such as, screening of candidates, contacting decision makers, valuation, deal structuration and negotiation. It's worth pointing out that the perspective of the process is different for the seller and buyer parties. According to Doepel et al. (2011, 333-338) there are two types of processes, an auction and a direct negotiation. Interestingly, the process of mergers and acquisitions is characterized as the process of negotiation already at the topic level. Typically a direct negotiation process occurs, when the process is initiated by a buyer (Lauriala 2011, 61). Below in figures 2-4 three alternative views to the process of mergers and acquisitions is presented:

FIGURE 2 Mergers and acquisitions process from an acquirer's perspective (Very & Schweiger 2001, 19).



FIGURE 3 Mergers and acquisitions process from the seller's perspective (Doepel et al. 2011, 335-336).



FIGURE 4 Direct process of mergers and acquisitions between seller and buyer, a combined perspective (Doepel et al. 2011, 338).



The buyer's perspective is excluded from the thesis and emphasis is towards seller's perspective of a merger and acquisition process. Therefore, figures four and five are emphasized. Shortly described, the mergers and acquisitions process from the seller's point of view begins with *initial preparation*, (from two to four weeks) where an analysis and project plan is made, which consist of business and strategy, markets and competitors and initial valuation² of the "to be sold Company". The process continues with *the first tender round*; (from four to six weeks) where a screened potential buyer candidates are contacted and after they have signed a non-disclosure agreement (NDA) an information memorandum (the company presentation, including, for example, strategy, business model, products, services, customers, vendors, organization and financials etc.) is provided to the buyer candidates. Depending on the amount of the interested potential buyers, in this phase the process becomes either an auction or a direct negotiation.

In direct negotiation, the seller approaches one buyer and gives the buyer an opportunity carry out management meetings, make indicative offers and create a letter of intent (LOI, includes, for example, general terms of the transaction, purchase price and initial buyer's terms and conditions of the transaction) and negotiate the initial transaction price from where the process advances to due diligence³. In an auction, the

² Shortly described valuation is made based on the company's historical financial performance and future estimates. The most typical valuation methods are discounted cash flow (DCF), Economic value added (EVA) and different valuation multiples, e.g., the company's peer group's EV/EBIT(DA), P/E and PS multiple. (Lehtovuori & Lindholm 2007; Niemelä 2011.)

³ Due diligence means a company examination and investigation, in which the buyer candidate evaluates the seller's responsibilities and risks by going through the seller company's most important documents and contracts. Most common areas of due diligence include legal, financial, technical, environmental and HR investigations. Due diligence is an important part of M&A process and can lead to deal breakers or reshaped tender offers. (Doepel et al. 2011, 351-355; Lehtovuori & Lindholm 2007.)

seller demands the buyers' indicative offers, which are based on the provided information and usually a suitable number of buyers are given the opportunity to carry out due diligence at the same time. In both cases, *the second tender round* (from six to eight weeks) consists of the seller's management meetings with the buyer candidates. After these meetings, the buyers make adjustments to their initial offers. In this phase, the process continues with the actual *negotiations* (from two to six weeks) where one selected buyer sends a letter of intent, which is based on verbal pre-negotiations, to the seller. In this letter, the initial negotiated terms of the transaction are presented and usually exclusivity to the negotiations is requested.

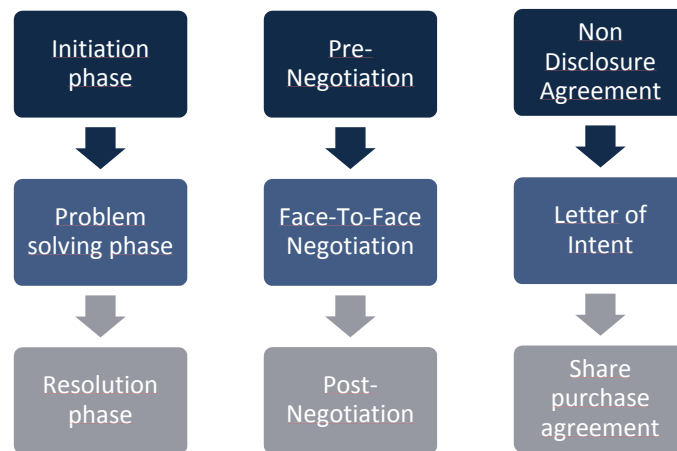
After the letter of the intent phase; the final face-to-face negotiations are held (for example, the general terms of the transaction and the final price are negotiated) and final share purchase agreement is created. If there were no buyer due diligence held before the letter of intent phase, usually the due diligence is performed at this stage. The final phase of the process is *signing and closing* (from four to eight weeks) where, for example, the final decision to implement the transaction, the final transaction price, different representations and warranties, conditions and covenants are agreed. At the signing, the transaction parties sign the negotiated transaction documents (e.g. share purchase agreement SPA or merger agreement, closing record etc.) and the ownership transforms to the buyer. At the closing, the buyer makes the final payment to the seller. (Doepel et al. 2011, 333-338; Lauriala 2011, 63-66; Lehtovuori & Lindholm 2007; Very & Schweiger 2001, 18-22.)

2.3.3 Negotiation process in mergers and acquisitions

Holmes (1992) encapsulates thirty years of negotiation process research by combining various phase models under one explanation. Even though, the scientific prescriptive and descriptive definitions of a negotiation process vary slightly from another, all of them share same basic three stage structure: an initiation phase, a problem-solving phase and a resolution phase. Typically in the initiation phase the negotiating parties define incompatible goals, specify their priorities, emphasize differences and seek for negotiation positions. In the problem-solving phase, negotiating parties seek

settlement for the problems emerged at the initiation phase by debating, exchanging information and moving towards joint solution. In the final phase, resolution is characterized by the creation of final agreements and implementation of the negotiated outcomes. (Holmes 1992, 86-92.) In practice, the negotiation process in mergers and acquisitions follows this three-stage structure.

FIGURE 5 Perspectives of the negotiation process, adapted from (Doepel et al. 2011; Ghauri 2003; Holmes 1992.)



Unsurprisingly Ghauri (2003, 8-11) distinguishes three phases from business negotiation process: a pre-negotiation, a face-to-face negotiation and a post negotiation. Typically, at the pre-negotiation phase, the negotiating parties form a first contact and show interest in doing business with each other, and the topics under discussion are on a general level. A typical sign of interest is a letter of intent (LOI) or award or memorandum of understanding. (Doepel et al. 2011; Ghauri 2003, 8-11; Reed, Lajoux & Nesvold 2007, 461.) In addition, Reed et al. (2007, 461) point out that the letter of intent typically memorializes in writing the basic terms of the transaction, which up to that point have been negotiated verbally. At the point of the letter of intent, the parties typically enhance their strategies for face-to-face negotiation. Furthermore, the parties perceived level of negotiation power, cooperation and interdependence determine, if the process can advance to the next phase. (Ghauri 2003, 8-11.) In the second phase, the face-to-face negotiation, negotiating parties basically try to work together in order to find a solution to a joint problem by presenting their alternatives and evaluating alternatives such as, the terms of the

payment and potential tradeoffs. In the final phase, post-negotiation, the parties have typically agreed all the terms and the contract is ready to be signed. (Ghauri 2003, 11-13.) The negotiation processes presented in figure 5 displays well that negotiation research is a multidisciplinary phenomenon as all the descriptions present the same structure from different viewpoints. On the left, the first description is from communication literature, the second description in the middle is from business literature and the third description on the right is from the legal literature.

3. NEGOTIATION THEORY AND RESEARCH RESULTS

This thesis argues that negotiation research consists of a huge pool of different scientific disciplines, theories and models. Therefore, the purpose of this section of the thesis is firstly to present a short perspective to past negotiation research, and introduce the most relevant negotiation theory concerning this thesis. Secondly, to introduce recent negotiation research related to integrative and distributive bargainer characteristics and offers in negotiations including anchor and reservation prices and counteroffers. Thirdly, present previous research results of mergers and acquisitions negotiation research and finally to categorize and demarcate this thesis based on previous research.

3.1 Development of negotiation research

In order to understand the theoretical framework and outlining of this thesis, the presentation of short historical perspective to negotiation research is essential. Negotiation is not a new phenomenon among scientific disciplines. Since the 1950s, negotiation research has gone through a number of development phases, which have represented different scientific paradigms of thought. In the 1950s and the 1960s, the field of negotiation research was dominated by normative and prescriptive research adapted from game theory, economics and mathematics that tried to generate optimal bargaining models. The normative and prescriptive researchers attempted to answer to the question: What would a negotiator do, if he or she was wise, all knowing and fully rational? (Bazerman, Curhan, Moore & Valley 2000, 280-283; Thompson, Wang & Gunia 2010, 492.)

The research of Kahneman and Tversky (1970) in the 1970s, which presented various biases in a negotiator's decision making and led to the prospect theory, can be characterized as one important "scientific paradigm shifter" in the negotiation research history because they scientifically demonstrated that a negotiator can't be considered as a rational decision maker. In other words, this observation that

individuals differ systematically from the assumptions of economic models, created the development of behavioral decision theory in negotiation research and the modern negotiation theory as a topic or empirical study (Thompson, Neale & Sinaceur 2004, 29-30). Moreover, Raiffa's work in the early 1980s reduced the gap between prescriptive and descriptive researches. Therefore, in the 1980s negotiation research was strongly influenced by behavioral decision theory and descriptive negotiation research⁴, which studied how negotiators actually make decisions during negotiations. (Bazerman et al. 2000, 282; Thompson, Wang & Gunia 2010, 492.) Since the 1990s to the early 2000s negotiation research was notably influenced by social psychology and the typical research topics consisted of mental models of negotiation, emotion in negotiation, ethics in negotiation, negotiation biases, perceptions, framing in negotiation, cross-cultural issues in negotiation and the medium of negotiation (Bazerman et al. 2000). In fact, Thompson et al. (2010, 492) argued that at the turn of millennium negotiation research has become notably cognitive. The descriptive negotiation research tradition has had a strong influence to this thesis. Therefore, this thesis is classified under the current direction of descriptive and behavior orientated negotiation research and behavioral finance.

3.2 Theoretical framework

Putnam and Roloff (1992, 5) draw the attention to the fact that, in previous negotiation research, there have been various ways of classifying negotiation research and theory. One approach is to classify the research on a macro level based on scientific disciplines, of which behavioral decision theory, communication, economics, marketing, management, law, political science, sociology, psychology, social psychology, sociology and anthropology are the most common social sciences to be involved in the research on negotiation (Bazerman, Lewicki & Sheppard 1991; Roloff, Putnam & Anastasiou 2003, 802).

⁴ Descriptive negotiation research studies how actual decisions in real life negotiations are made and argue that these decisions are different compared to the ideal rational decisions and optimal choices in presented normative and prescriptive models (Bazerman et al. 2000; Raiffa, Richardson & Metcalfe 2003).

Another alternative is to classify negotiation research into five “families” of negotiation research. These families are structural, strategic process, behavioral and integrative research. *Structural research* is focused mainly on the distribution of power and the relative strength of negotiation parties. *Strategic research* focuses mainly on game theory, present utilities and future opportunities. *Process research* focuses mainly on concession behavior, negotiated outcomes, offers, counteroffers, and variance between the offers. *Behavioral research* focuses mainly on the behavior of a negotiator and his or her goals, personality, traits, predispositions of negotiation, levels of aspiration and argumentativeness. *Integrative research* focuses mainly on the development of a negotiation process, phase development during negotiation, reciprocity in bargaining strategies and issue development. Despite the various alternatives, communication research can actually focus on any of these five “families”. Traditionally, most communication studies have concentrated on behavioral and integrative research approaches. (Putnam & Roloff 1992, 5-6 ref. Zartman 1988.)

According to Morley (2006, 403-420), negotiation research can be classified based on five different models of negotiation. *Analytic models* of negotiation provide a simple, abstract and generalized view to negotiation research. These models study the negotiation process and provide tools for analysis and theoretic explanations of what occurs in negotiation. In addition, the analytic models emphasize the relationship between actions and effects. The analytic models typically consist of game theoretic models and utility models of negotiation, which enable mathematical manipulation of negotiation research data. However, these models might oversimplify negotiation as a phenomenon. (Morley 2006, 404-406.)

Behavioral models of negotiation are descriptive models, which describe what negotiators actually do during a negotiation process. With these models, negotiation can be researched by creating and analyzing simulated negotiation situations or measuring real life negotiations. Behavioral negotiation researchers use typically different coding schemes, such as, Bales interaction process analysis. (Morley 2006, 404-406.) *Information-processing models* focus on the characteristics and abilities of negotiator in a negotiation situation and the relation between negotiating parties. These approaches view negotiators as intelligent social actors and highlight the

complexity of negotiations, which other models and theories often ignore. The main concern of information-processing models is that as the complexity of a negotiation increases a negotiator's main focus transforms from strategy (how to make the best deal) to structure (how to organize negotiations). (Morley 2006, 411-415.)

Discursive models are an extension of the information processing models and the language-action perspective. Discursive models of negotiation focus on the micro level collective processes of bargaining and how negotiators make sense and act in the negotiation situation by breaking existing rules and creating new ones in order to make agreements, which are accepted by both negotiating parties. Discursive models emphasize that negotiators affect the outcome of negotiations by creating shared relations, messages and meanings. (Morley 2006, 416-415; see also Putnam 2010.) Putnam and Holmer (1992) point out that although framing⁵ is relatively new phenomenon in the scientific field of negotiation, framing and reframing, which are tied to information-processing, message patterns and socially constructed meanings, can be understood as essential parts of the study of negotiation.

Raiffa, Richardson and Metcalfe (2007) in turn derive the origins of negotiation research from the study of decision-making. Negotiation research can be classified to four different and somewhat overlapping paradigms of research. The first paradigm is decision analysis is a prescriptive approach focusing on an individual's decision-making and on how negotiators gain most value for themselves from negotiations. The second paradigm, behavioral decision making, is a descriptive approach that stresses how real people actually behave and make decisions in real life negotiations. The third paradigm, game theory, is a normative approach that places emphasis on how negotiating parties comprised of rational individuals should make separate interactive decisions, which determine the parties' negotiation outcomes and payoffs. The fourth paradigm, Negotiation analysis, is a prescriptive approach that stresses integrative negotiation models, i.e, how negotiating parties should and could make joint collaborative decisions in order to maximize joint outcomes. (Raiffa, Richardson &

⁵ Three approaches of studying framing can be identified from the previous negotiation literature: 1) Cognitive heuristics 2) Frame categories and 3) Issue development (Putnam & Holmes, 1992).

Metcalfe, 2007.) Due to the interest towards negotiators' own bargaining strategy, this thesis concentrates both on the individual and the negotiation parties as subjects of negotiation research. However, the normative and game theoretic paradigms are delimited from this due to their overgeneralized nature. To strengthen this view, Sebenius (1992) has argued that game theoretic approaches are outdated because these approaches don't firstly presume that negotiations have many solutions and many possible equilibria. Secondly, they presume that humans don't behave rationally. Thirdly, the game theoretic models assume that all the parties know the strategic options and structures of the negotiation similarly. Thirdly, the researchers have found that, in game theoretic situations, where the negotiation situation is identical for all the negotiation parties, the outcomes are widely scattered, even though according to game theory the results are expected to be similar. (Sebenius 1992, 22-25.)

Thompson, Wang and Gunia (2010) present one of the most recent structuring of negotiation research, which is based on a review of current descriptive negotiation research. According to Thompson et al. (2010, 491-508), the current empirical negotiation research can be divided into five levels or systems of research: intrapersonal, interpersonal, group, organizational and virtual. Not surprisingly, these systems are very similar to the different levels of communication that the science of speech communication studies. Negotiation research at the intrapersonal level highlights how the inner experience of a bargainer affects to the negotiation process and outcomes. Shortly described, topics of *intrapersonal research* could consist of individual negotiator's perceptions of his or her own negotiation behavior. In recent years, gender, power and affect have received significant research attention from intrapersonal negotiation scholars. (Thompson, Wang & Gunia 2010.)

The second level, *interpersonal research*, has focused on mixed motive interaction on a dyadic level. Popular research topics have included trust, tactics and emotions. Interpersonal research might study the dyadic aspects of negotiation behavior, such as how negotiators mood influences the other negotiator's behavior and the final negotiated outcome. The third level, *group research*, has concentrated on how group dynamics influence to the negotiation processes and outcomes. General research topics have centered on identity, culture and teams. Therefore, a typical research

could examine social dynamics of group identities or cultural aspects. The fourth level, *organizational research*, stresses out how a negotiator behaves in a larger setting. Typical organizational research might try to find out how negotiators choose optimal counterparties from a marketplace or how negotiating parties use their networks. The fifth level, *virtual research*, has concentrated on virtual negotiation. Virtual negotiation research could include topics such as negotiators' medium of interaction and the medium's use, negotiation quality, virtual negotiation processes and outcomes. (Thompson, Wang & Gunia 2010; see also, Barsness & Bhappu 2004; McGinn & Croson 2004.) The theoretical framework of this thesis is presented in table 1.

TABLE 1 Overview of the classifications of negotiation research (note: a dotted line indicates the theoretical framework of this thesis)

Bazerman et.al (1991); Roloff et al. (2003): <i>Disciplinary areas of negotiation research</i>	Zartman (1988): <i>Five families of negotiation research</i>	Raiffa et al. (2007): <i>Perspectives of negotiation research</i>	Morley (2006): <i>Models of negotiation research</i>	Thompson et. al. (2010): <i>Levels of negotiation research</i>
Behavioral decision theory Communication	Structural, focus on: distribution of power and relative strength of parties	Normative	Analytic models of negotiation	Intrapersonal
Economics Finance Marketing	Strategic, focus on: game theory, present utilities and opportunities	Prescriptive	Behavioral models	Interpersonal
Management Law Political Science Sociology	Process, focus on: concession behavior and negotiated outcomes, offers and counteroffers and variance between offers	Descriptive	Information processing models	Group
Psychology Social psychology Sociology Anthropology	Behavioral, focus on: goals, personality, traits and predispositions of negotiation, levels of aspiration, argumentativeness	Game theory (Two-Party normative and prescriptive)	Discursive models	Organizational
	Integrative, focus on: development of negotiation process, phase development, reciprocity in bargaining strategies, issue development	Negotiation analysis (Two-Party descriptive)		Virtual

3.3 Negotiation analytic approach

The key theoretical assumptions of this thesis are based on general descriptive negotiation theory and joint negotiation theory. It is worth mentioning that the phenomenon of negotiation can be explained by various different theories. Detailed negotiation theories, such as face negotiation theory (see, for example, Ting-Toomey & Kurogi 1998, 189-211), which concentrate on the face saving strategies of cross-cultural negotiations, are excluded from this thesis. These types of theoretical approaches do not answer to this thesis' research questions and hypothesis. Additionally, general communication theories, such as coordinated management of meaning (see, for example, Pearce, Cronen & Harris 1980) that can be applied to almost any communication context or phenomena are excluded from this thesis because these types of theories provide too extensive explanations in relation to this thesis' subject of research.

The nature of a descriptive negotiation and joint negotiation theory is more applicable to mergers and acquisitions research context than, for example, general communication theories. This thesis argues that the negotiation analytic approach suitably explains the phenomenon of strategy and offers in mergers and acquisitions negotiations. The scientific roots of negotiation analysis date in the 1960s, when the first theoretical explanations of integrative and distributive bargaining were introduced. However, Raiffa developed the first complete synthesis of negotiation analytic approach in the 1980s (Sebenius 1992, 19-20).

The negotiation analytic approach explains well the theoretical relationship between integrative and distributive communication strategies and value and offers in a negotiation situation. Briefly described, negotiation analytic approach concentrates on the descriptive and prescriptive analysis of bargaining by analyzing the negotiating parties' interests, alternatives to negotiated agreement and changes in perceptions of the zone of possible agreement. Additionally, the negotiation analytic approach doesn't account for game theoretic single Pareto optimal solutions, but instead of multiple solutions that enable joint value creation and value claiming. (Sebenius 1992.)

According to Murtoaro and Kujala (2007, 723) the negotiation analytic approach enables systematic, logically consistent and theoretically solid approach for negotiation research. The negotiation analytic approach presumes that, in a negotiation, there are at least two negotiating parties, who are trying to maximize their own payoffs. These parties are bargaining over decision variables, called issues, which each have two or more solutions called options or alternatives. The issues can be grouped under headings such as price, finance, accounting, production, distribution, marketing, communication, human resources, employment policy, management etc. Prior the negotiations, each negotiating party is assumed to have analyzed and organized the (to be bargained) issues based on their preferences, interests and valuations in order that they can evaluate the attractiveness of each solution, from where a negotiated contract is created. The final contract determines the negotiating parties' joint and individual payoffs. (Murtoaro & Kujala 2007, 723-724; Raiffa, Richardson & Metcalfe 2007.)

The negotiation analytic approach has a theoretical advantage because its concepts can be utilized as tools in "real-life" negotiations. When employed with certain preconditions, the approach might enable the creation of collaborative and integrative negotiated outcomes, which in addition, can be presented in feasibly divisible monetary units. The negotiation analytic approach comprises of several important concepts of which the most important are contract set, efficient frontier, best alternative to a negotiated agreement (BATNA), reservation price/value (RP/RV), zone of possible agreement (ZOPA) and the feasible contract region. (Murtoaro & Kujala 2007; Sebenius 1992; Raiffa et al. 2007.) Because the reservation price, best alternative to a negotiated agreement and zone of possible agreement are closely related to each other as concepts, they are explained consecutively. These concepts represent both distributive and integrative potential of a negotiation.

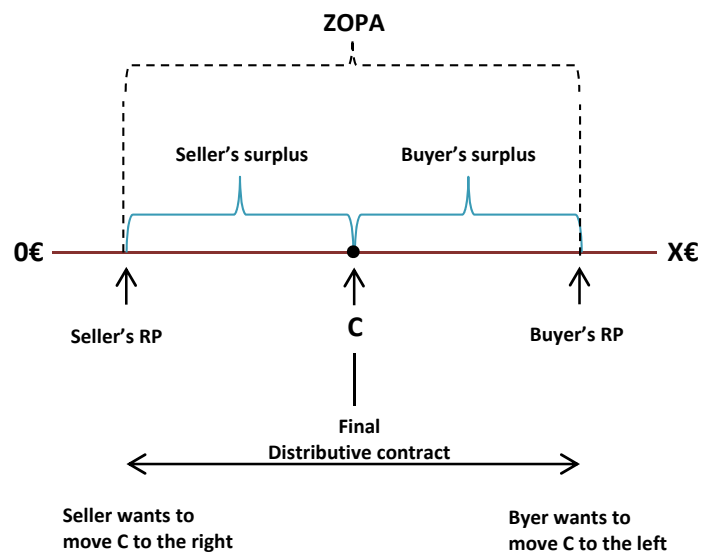
Contract set and efficient frontier. The contract set consists of all the possible payoff-combinations from every possible contact, which can be created from the issues and alternatives. For example in a negotiation, where there are only three issues to be decided: the final price with five possible solutions, the terms of the share purchase agreement with four possible solutions and the terms of closing with five possible

solutions, in total there can be 100 potential different contracts. The integrative contract is the contract from the set of possible contracts that maximizes the joint value for both parties. The integrative contract is typically determined as a contract that has a greater value than a contract with an even split of monetary value between the negotiating parties (Murtoaro & Kujala 2007, 724-725; Olekalns & Smith 2000; Raiffa et al. 2007.)

Best alternative to a negotiated agreement. According to Murtoaro and Kujala (2007, 725) and Raiffa et al. (2007) the BATNA is an abbreviation and means the best alternative to a negotiated agreement. The BATNA is a strategic possibility and monetary value, for example, an option to negotiate with an alternative buyer, who offers initially an alternative payoff. The BATNA enables both a seller and a buyer a possibility to consider, if the current negotiations with the existing negotiating party are profitable enough, in order to create a final contract. The BATNA can be derived from the parties' interests, valuations and objectives. (Murtoaro & Kujala 2007; Raiffa et al. 2007.)

Reservation value and zone of possible agreement. The reservation value or price (RV/RP) is the seller's minimum price and the buyer's maximum price in which the parties are willing to enter into a contract. Reservation value is typically greater than or equal to the negotiating parties' BATNAs. The buyer's and seller's combined reservation values create a zone of possible agreement (ZOPA) which is a feasible region of the contract set that also satisfies the BATNA's of the negotiating parties. In other words, the zone of possible agreement represents for the both negotiating parties a contract or a value that is better than no agreement. If the point of contract is greater than the seller's reservation value, it can be thought as the seller's surplus. Therefore, the buyer's surplus is generated vice versa. (Murtoaro & Kujala 2007, 725; Sebenius 1992, 21; Raiffa et al. 2007, 110-125.) From figure six, it can be noted that if the point of contract (C) is lower than a seller's reservation value or higher than a buyer's reservation value no zone of possible agreement exists.

FIGURE 6 Reservation value, Zone Of Possible Agreement, adapted from (Raiffa, Richardson & Metcalfe 2007, 110-112; see also Lauriala 2011, 45).

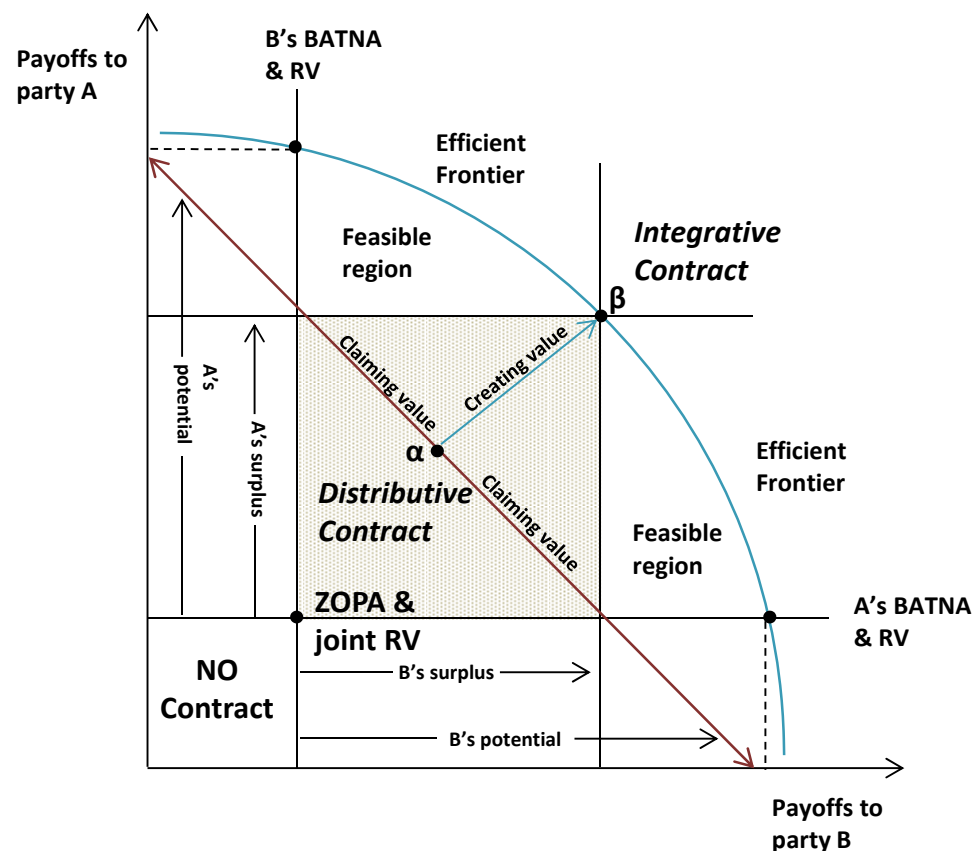


Murtoaro and Kujala (2007, 725-726) point out that in a distributive bargaining situation, the relationship between parties' payoffs is negative, and the ZOPA collapses to a diagonal line. However, according to Raiffa et al. (2007, 228-231) the ZOPA can include contracts that are not placed on a diagonal line, thus holding integrative potential, which means the possibility to increase the payoffs of the negotiating parties without reducing anyone's payoffs.

Raiffa et al. (2007, 191-271) explain in detail how the negotiation analytic approach enables, with simple mathematical manipulation and programming, the negotiating parties to achieve integrative, fair and extreme efficient contracts with maximum feasible values. These contracts increase the final payoff of both parties by maximizing the sum, the minimum and the product of all the possible payoff combinations. However, Raiffa et al (2007, 270) point out that despite the benefits of the analytical approach, negotiating parties in the "real world" seldom "do their homework" and most of the time ignore to fundamentally explore their interests, options, alternatives,

BATNA's and reservation values that, in fact, are the cornerstone of the creative and interactive tactics that enable joint gains. Moreover, the negotiation analytic approach cannot be treated as a turnkey solution for all negotiations, as the final outcomes and payoffs depend critically on the interaction and the bargaining skills of the negotiating parties. (Raiffa, Richardson & Metcalfe 2007.)

FIGURE 7 Negotiation analytic approach, adapted from (Murtoaro & Kujala 2007; Sebenius 1992; Raiffa et al. 2007)



The figure seven represents the negotiation analytic approach presented in this thesis. The red diagonal line and grey area below the line represents all the possible distributive contracts of the contract set. The grey area above the red line and feasible regions represent integrative contracts of the contract set. Point α is an example of a first offer. This thesis argues in theory that:

- If α is communicated by the buyer with a more distributive than integrative manner and it is lower than the seller's reservation value, then the whole

nature of the interaction in negotiation becomes distributive. Therefore, the parties can only move up and down parallel to the red line because they try to increase their own payoff by claiming value (from a fixed sum). Therefore, the maximum joint payoff that the parties can achieve is point α , where the maximum value of the contract is split equally between the parties.

- If α is communicated by the buyer with a more integrative than distributive manner and it is higher than the seller's reservation value, then the whole nature of the interaction in negotiation becomes integrative. Therefore, negotiation begins to move towards the blue efficient frontier line because there is a potential of increasing the joint value of the both negotiating parties by creating additional value (both parties payoffs are more than the total monetary amount of the contract split between the parties). The blue line represents the efficient frontier of a negotiation where the total (integrative) value is maximized. The Point β represents extreme efficient integrative contract point, where the integrative value is maximized between both parties.

3.4 Previous research

Previous research presented in thesis, can be divided broadly into research which studies integrative and distributive negotiation strategies and bargainer characteristics, (see, for example, Barry & Friedman 1998; De Dreu, Weingart & Kwon 2000; Goering 1997; Johnson & Johnson 2003; Liu & Wilson 2011; Olekalns & Smith 2000; Putnam & Jones 1982) biases, offers, anchors and price in negotiations (see, for example, Baker, Pan & Wurgler 2012; Galinsky, Ku & Mussweiler 2009; Kristensen & Gärling 1997 a; Kristensen & Gärling 1997 b; Kristensen & Gärling 1997c; Kristensen & Gärling 2000) and mergers and acquisitions, with a negotiation context (see, for example, Ang, Cheng & Nagel 2008; Lukas & Welling 2011; Saorín-Iborra 2008; Schweinsberg, Ku, Wang & Pillutla 2011). By presenting these groups of research, this thesis aims firstly to determine the characteristics of an integrative and a distributive bargainer. Secondly, the thesis aims to present the most relevant research results

concerning integrative and distributive negotiation strategies, reservation values and offers in negotiations. Thirdly, an initial synthesis of the two research domains is presented.

3.4.1 Characteristics of an integrative and a distributive bargainer

There is a large amount of research concerning the negotiator's characteristics and competence. Therefore, the characteristics that can be used to assess distributive and integrative negotiation strategies can be identified based on previous research. One of the first, who researched a bargainer's integrative and distributive behavior were Putnam and Jones (1982), who coded over 5 000 units of negotiation interaction and discovered that distributive negotiating strategies can be divided into two different groups. The first group includes offensive strategies, which aim to weaken an opponent's position through demands, threats and attacking arguments. The second group comprises of defensive maneuvers, such as building a fortress around a bargainer's position, conditional promises and self-supporting arguments. Contrarily, integrative strategies comprised of other supporting messages, exploratory problem-solving, procedural statements and acceptances. (Putnam & Jones 1982, 181-189.)

Goering's (1997) research continued to characterize negotiators' integrative and distributive strategic behaviors by using Putnam's and Jones's (1982) proven, valid and reliable⁶ factor analysis method. This method enabled the measurement of a bargainer's negotiation strategies in different contract negotiation phases. The research, which consisted of over 900 messages in negotiation situations, discovered three strategic characteristics. Goering's (1997) first finding was that an integrative strategy led to a problem-solving interaction between negotiators. This strategy comprised of; acceptances, other supporting arguments, problem-solving, positive affect and statements about the negotiation procedure. The second finding was a distributive-offensive strategy, which led to value claiming interaction between negotiators. In addition, this strategy comprised of rejections, threats, attacking

⁶ Mean r-matrix correlation of .82

arguments, aggressive demand of information, correction and negative affect. The third finding was a distributive-defensive strategy, which in turn comprised of mainly, self-supporting arguments and demand of commitments. (Goering 1997, 391-393.)

De Dreu et al.'s (2000, 890) findings are consistent with the previous research. Their research indicated that a competitive negotiator tries to maximize individual gain with no regard to the gain of the opposing negotiator. On the contrary, a negotiator with an integrative, i.e., prosocial motive tries to maximize both own and the opposing party's payoffs. The characteristics of an egoistic negotiator comprise of distrust, hostile attitudes and negative interpersonal perceptions towards the other negotiating party. When negotiating these individuals use persuasive arguments, positional comments, threats, bluffs and coercive power in order to get what they want. In turn, the characteristics of a prosocial negotiator comprise of trust, positive attitudes and perceptions. The prosocial negotiators try to engage in a constructive exchange of information and listen and understand the other party's perspectives, in order to uncover possibilities for future tradeoffs. (De Dreu et al. 2000, 890.)

To strengthen what had been previously discovered, Olekalns and Smith (2000) studied strategy sequences in competitive negotiations and found out that distributive and integrative strategies can be identified by researching the negotiating parties' cue and response patterns. For example, distributive cue and response strategies were identified and classified as contending. These strategies comprised of behaviors, such as denying the relevance of an opponent's position, making and repeating offers, using threats and promises, attacking with bad faith to an opponent, explicit rejection of the opponent's offer, personal insult, statements and requirements with, the expectation of compliance. On the other hand, integrative cue and response strategies were identified as priority information exchange, conciliation and constructive exploration. These strategies comprised of behaviors, such as proposing a new way of proceeding, requesting or providing information about the value of issues, suggesting a range of options or tradeoffs, proposing modifications to an opponent's offer, offering opponent a concession, introducing a new topic, accepting opponents point of view but no offer. (Olekalns & Smith 2000, 534-545.)

In the most recent research carried out by Liu and Wilson (2011), they provided additional information concerning integrative and distributive negotiator's characteristics. One of their main additional findings compared to previous research was that Integrative (cooperative) negotiators created multi-item offers and links between multiple issues during negotiations and distributive (competitive) negotiators centered on single item offers, demanding concessions and positional comments, as well as walk away threats. Furthermore, their study indicated that negotiating goals between the integrative and the distributive negotiators can be divided into two different categories. The integrative negotiators' goals comprised of maximizing the both parties profit, understanding the concerns of the other party, appearing cooperative and considerate, creating trust and promoting the future relationship. In turn, distributive negotiators goals comprised of maximizing own profit, minimizing profit of another party, appearing forceful and verbally aggressive and gaining power over the opponent. (Liu & Wilson 2011, 252-260.) Not surprisingly, the findings are similar compared to the previous research results. The summary of the integrative and distributive strategic characteristics of a negotiator is presented in table 2.

TABLE 2 Summary of the distributive and integrative bargainer's characteristics

Integrative characteristics	Distributive characteristics
<ul style="list-style-type: none"> ▪ Acceptances, trust, listening to others, supporting arguments, exploratory problem-solving, positive affect and statements about the negotiation procedure, supporting messages, constructive exchange of information and priority information ▪ Proposing a new way of proceeding, requesting or providing information about the value of issues and suggesting a range of options or tradeoffs, multi-item offers, proposing modifications to an opponent's offer and offering opponent a concession, introducing a new topic, accepting opponents point of view but no offer 	<ul style="list-style-type: none"> ▪ Distributive–Offensive: explicit rejection of an opponent's offer, threats and promises, coercive power, bluffs and walk away threats, attacking and persuasive arguments, concessional demand of information, correction and negative affect, hostile attitudes and negative interpersonal perceptions, making and repeating offers and single item offers, personal insult, statements of requirements with the expectation of compliance ▪ Distributive-Defensive: building a fortress around bargainers position and positional comments and denying the relevance of an opponent's position, self-supporting arguments , information and commitments, distrust

This thesis presumes that the above presented research and a substantial previous negotiation research has 'reliably and validly' discovered and described the characteristics that can be used to assess the behavior of an integrative and distributive bargainer. In addition, these characteristics are the components of the latent variables of integrative and distributive strategies. Even though, all negotiators use implicitly or explicitly both integrative and distributive strategies simultaneously in negotiation, few researchers have studied professional negotiators' perceptions concerning these two important bargaining strategies with the context of first offers. In addition, there has been critique towards the similarity of the current negotiation research methods. In fact, Johnsson and Johnsson (2003, 47) argued that the negotiation research is problematic in terms of generalizability, as the previous research is similar in its research and (psychological laboratory studies, duration one hour) sampling methods (white college students from the middle class).

3.4.2 Outcomes of research concerning integrative and distributive negotiation

In a research concerning optimal bargaining outcomes in competitive negotiations and the role of negotiation strategies, Olekalns and Smith (2000) found out that negotiating parties that obtained high levels of joint gain used integrative strategies.

Furthermore, the negotiating parties which didn't reach an agreement or resulted to low joint gain (distributive contract <9,600 points, midpoint was 9,600) used cooperative negotiation strategy non-frequently and competitive strategy frequently. In comparison, the negotiating parties that resulted in high levels of joint gain (integrative contract 12,000-14,400 points) used cooperative negotiation strategy frequently and competitive strategy non-frequently. Furthermore, the parties that optimized their payoffs used, for example, conciliation and priority information exchange more frequently than the researchers expected. (Olekalns & Smith 2000, 536-545.)

In a study of De Dreu, Weingart and Kwon (2000), the results indicated that negotiators with prosocial motives (integrative characteristics) engaged in problem-solving behavior more than negotiators with egoistic motives (distributive characteristics). Moreover, the prosocial negotiators managed to realize the integrative potential better than egoistic negotiators achieving higher joint payoffs. This is consistent with the cooperation theory, which in summary argues that individuals with prosocial motives achieve greater payoffs from a negotiation situation. It is worth mentioning that the association between motives, problem-solving, contentious behavior and joint outcome was statistically significant when a negotiator had a high resistance to yielding (high individual goals and aspirations).

Similarly, in a research concerning bargainer characteristics, Barry and Raymond (1997, 353) indicated that extraversion, which is related with being sociable, assertive, talkative, and active was a disadvantage for low aspiration negotiators. These findings are consistent with the dual concern theory, which presumes that negotiators vary in their aspiration level. The negotiators with high resistance to yielding engage in problem-solving activities very often, which promotes the creation of integrative solutions and high payoffs (De Dreu et al. 2000, 896-900). Therefore, a negotiator should set his or her negotiation objectives relatively high, in order to create a problem-solving atmosphere to a negotiation. This might contribute to the creation of integrative payoffs.

In one of the most recent research concerning integrative and distributive negotiation, Liu and Wilson (2011) studied the effects of interaction goals on negotiation tactics and outcomes. They found out that a negotiator's interaction goals are mediated by their bargaining strategies and tactics. Their research discovered that there was a statistically significant positive association between integrative tactics and joint gain and a negative association between distributive tactics and joint gain. In addition, the bargainers' individual and combined payoffs were negatively associated with distributive persuasion and positively associated with the priority information exchange. Furthermore, when the negotiators placed importance on value claiming goals, they not only decreased their own profit but reduced their opponents profit as well. (Liu & Wilson 2011, 261-269.)

Interestingly, the recent research results concerning integrative and distributive negotiation strategies are quite similar. If the final outcomes and payoffs were the only measure of a successful negotiation, the recent research results of negotiation research seem to conclude that integrative negotiation strategy is a better choice than distributive negotiation strategy. This finding is consistent with the theoretical model presented in the previous chapter of this thesis, which in short argues that the distributive negotiation strategies and offers result in inferior contracts.

3.4.3 Outcomes of research concerning offers and price in negotiations

Both Kristensen and Gärling (1997 a) and Roloff (2008) argue that bargaining about the price is the most important feature of most business negotiations. Traditionally, the researchers have described business negotiations as distributive negotiations because the seller wants to sell at the highest price possible, and the buyer wants to buy the lowest price possible. This thesis argues that this distributive premise can be turned upside down by creating a positive frame for the respondent with the first offer. Therefore, the integrative negotiation potential might be achieved also in business negotiations.

This argument is supported partially in a study concerning negotiators adoption on cognitive reference points, where Kristensen and Gärling (1997 a) researched this

phenomenon by studying, if a first offer, which can also be viewed as information about the market price, affected the negotiators' perception of a selling price. Their statistically significant main finding showed that both the seller and the buyer accepted an initial offer as a reference point, even though both parties were aware of the current market prices. (see also Kristensen & Gärling 1997 c, 500.)

In their second research during the same year, Kristensen and Gärling (1997 b) studied buyers' first counteroffers in a negotiation situation. They hypothesized that when a buyer in a price negotiation accepted a seller's first offer as an anchor point, and it is perceived as a gain instead of a loss, the selling price will increase. The hypothesis was studied by presenting the buyers different initial offers, which were either higher or lower than the buyers' reference values. In this simulated bargaining situation, the sellers presented the first offer every time. The research results indicated that the correlation between reservation price and initial offer was statistically significant and finding supported the hypothesis. In other words, the study indicated that when a buyer perceived initial offer as a gain they bought at a higher price from the seller's viewpoint. In addition, when the gain frame was achieved, the number of offers in a negotiation decreased and the number of impasses decreased. (Kristensen & Gärling 1997b, 87-95.)

Based on their previous findings, Kristensen and Gärling (2000, 494-503) proposed, in their most recent study, that in a price negotiation an anchoring and adjustment process is made, where a reference value determines whether the offers are perceived as gains or losses. Not surprisingly, they proposed that the first offers play the roles of anchor points, from which the adjustments are made, in order to generate counteroffers. Furthermore, the study expected that as first offers are perceived as gains smaller adjustments are made by the respondent, which result in higher counteroffers (from the seller's viewpoint). The research results showed that the counteroffers were, as proposed as, higher for the high anchor point than for the low anchor point. Furthermore, consistent with the previous research, when the first offer was perceived as a gain, the counteroffers were lower (smaller adjustment) compared to the situation, where the first offer was perceived as a loss. One of the most important findings of this research was that the respondents' ratings of satisfaction

were influenced by initial offers above and below and their reservation prices.
 (Kristensen and Gärling 2000, 494-503.) Kristensen's and Gärling's findings (1997b) are illustrated graphically in figures eight and nine.

FIGURE 8 Distributive gain frame negotiation, adapted from Kristensen & Gärling 1997b

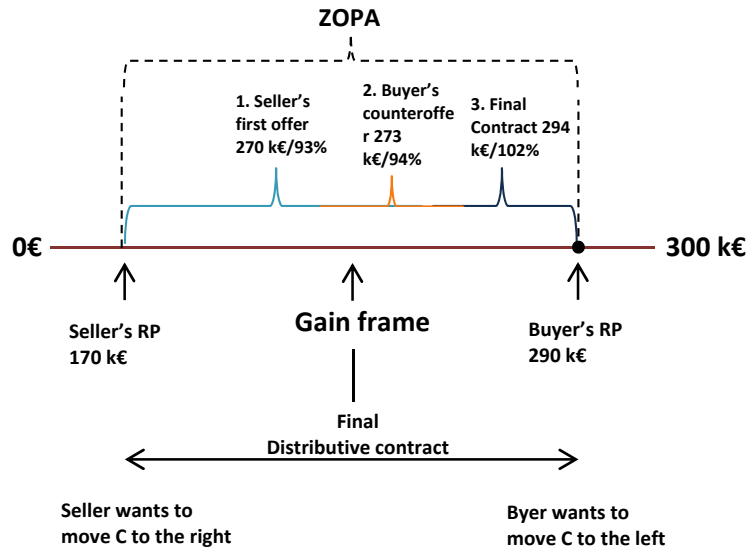
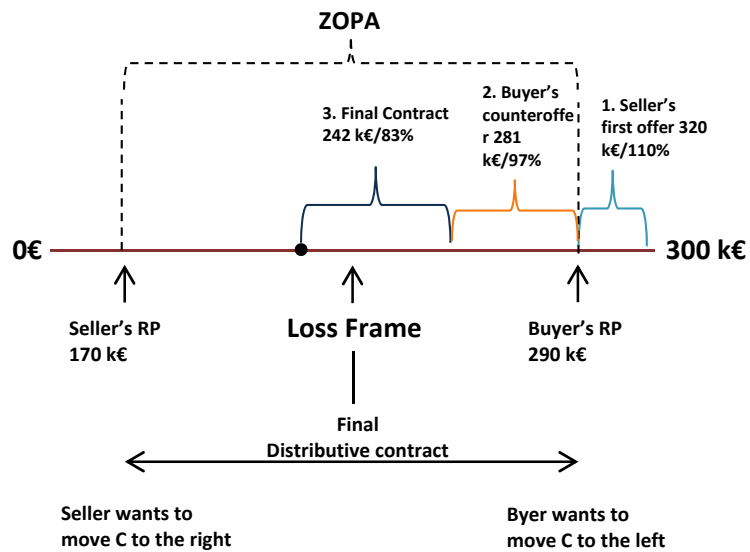


FIGURE 9 Distributive loss frame negotiation, adapted from Kristensen & Gärling 1997b



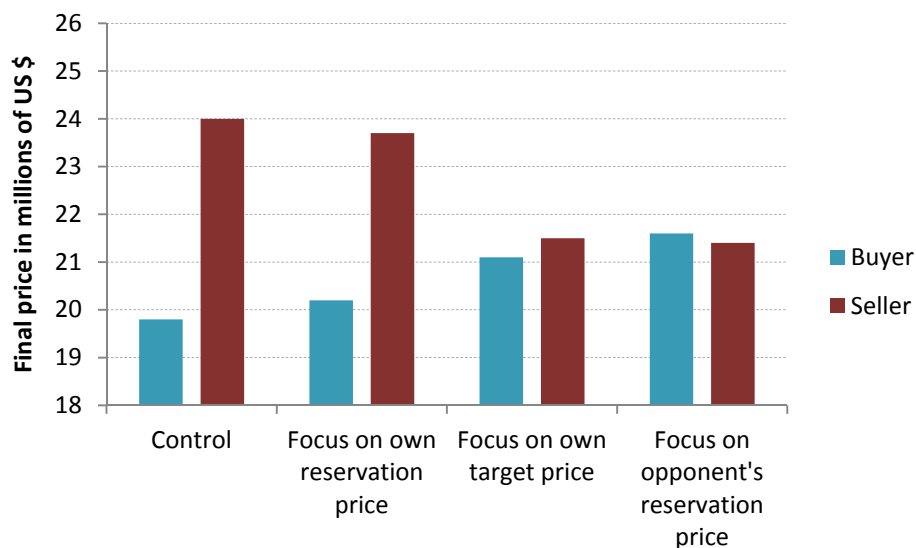
According to Schweinsberg, Ku, Wang and Pillutla (2011) extreme first offers are the causes of impasses in a negotiation. In their research, concerning anchors and power in negotiations, Schweinsberg et al. (2011) found out that about 29 % of the negotiators who received extreme first offer walked away from a negotiation. Only about 3 % who received an extreme offer managed to create a contract. Contrarily, about 14 % of negotiators who received a moderate first offer left the negotiation table. In addition to the high percent of impasse, extreme offers resulted in about 24 % higher counteroffers (seller's viewpoint) and in significantly lower final outcomes than moderate first offers. Furthermore, negotiating power of the extreme offer wasn't considered as a significant factor as both high- and low-powered negotiators found the extreme offers equally offensive. (Schweinsberg et al. 2011, 227-230.)

The findings from the current financial research are similar to each other. In a research concerning acquires as dealmakers Ang, Cheng and Nagel (2008) studied negotiators' timing, bargain, hunting and negotiating skills from a seller's perspective. They argued that a negotiator's competence is based on merger premiums. In other words, the better the bargainer, the better the paid merger premium. The results of 894 acquisitions indicated that an average seller was able to bargain over 30 % merger premiums (mean merger premium 30.54 % median 26.36 %). Consistent with the previous study Aktas, De Bodt and Richard (2010, 246) measured mergers and acquisitions of 847 firms and found out that the mean bid premium was 40.41 %. In order to strengthen this view, it must be noted that the price a bidding firm offers for a target company is generally the outcome of a face-to-face negotiation between the buyer and the target firm's board of directors, which is typically held before the actual bid (Baker, Pan & Wurgler 2012).

In addition to anchoring effects and pricing, the researchers have shown great interest towards an important strategic problem: who makes the first offer? In a research concerning first offers and negotiation outcomes in a sale of a pharmaceutical company Galinsky, Ku and Musseweiler (2009) found out that final outcomes of a negotiation were positively anchored by first offers ($r = .72 - r = .93$). Their main findings are presented in figure ten, which indicates that a seller gets an advantage in this type

of negotiation when he or she focuses on own reservation price. Furthermore, from the sellers' point of view the maximum value is reached, when the seller has the control. This means that the seller party makes the first offer. From the buyer's viewpoint, focus on the seller's reservation price is the most advantageous option. It is worth mentioning that Schweinsberg et al's (2001; 2009) research doesn't make a difference between integrative and distributive offers.

FIGURE 10 The effect of first offers on final sale prices in a simulated negotiation over a pharmaceutical company adapted from (Galinsky & Mussweiler 2001, 660-665; Galinsky, Ku & Mussweiler 2009, 358)



Barry and Fredman (1998, 347-348) suggested that it might be advantageous for any negotiating party to place the first offer, if a party has a high aspiration level, as this is associated with higher individual payoffs in negotiation. In addition, they argued that a smart bargainer who understands his or her opponent's interests might be able to fulfill them with better deals at a small cost for him or her by making the first offer.

This argument is supported in a study concerning negotiators' perceptions about logrolling offers and counteroffers. In the study Moran and Ritov (2002) expected that in a complex, competitive, multi-issue negotiation where parties have different priorities, integrative agreements could be achieved through logrolling⁷. Surprisingly,

⁷ In this thesis, logrolling is determined as a procedure where a negotiator concedes on low priority issues in exchange for issues of high priority.

the research indicated that the distributive and not integrative offers were considered more attractive than the logrolling offers (Moran & Ritov 2002, 105-117). This type of research result could be due to the fact that the respondents of the research were not professional negotiators. Taking the first result into account Moran and Ritov's (2002) research even more surprisingly discovered that the logrolling initial offers were more effective from the initiators' point of view, yielding a lower counteroffer compared to an initial distributive offer. Furthermore, the joint value of the offer-counteroffer process was significantly higher when the first offer was a logrolling offer. (Moran & Ritov 2002, 105-117.) In conclusion, their research was consistent with the past research as it indicated that the initial offer had an effect on the final outcomes of a negotiation. So far, the previous negotiation research has indicated three key findings, which can lead to value adding negotiation.

- Concerning strategic communication behavior, a negotiator should use more integrative than distributive approach
- Concerning offers, a negotiator should always place the first offer, but before this the negotiator should carefully analyze the potential reference values of the negotiating parties, create alternatives and evaluate consequences in order to make tradeoffs
- Concerning negotiation goals, the negotiator should have a high level of aspiration

4. RESEARCH METHOD

The purpose of this thesis' theoretical framework was to find and introduce the most relevant theoretical concepts, which provide the most accurate descriptions and explanations of integrative and distributive negotiation behavior and strategies in the context of offers and mergers and acquisitions. Furthermore, an important criterion was to find and present a theoretic model, which corresponds to the research questions of this thesis. In addition, as the research on negotiation is a very multidisciplinary subject of research, one of the most important objectives, was to introduce briefly the historic viewpoint of negotiation research to the reader. This enabled the categorization and outlining of the thesis based on the main disciplinary areas, families, perspectives, models and levels of negotiation research. In the following sections, the research objectives, questions, methodological framework and method are presented.

4.1 Research objectives and questions

This thesis attempts to research the phenomenon of first offers and negotiators' perceptions of their own negotiation strategies in a typical negotiation. There is clearly a need for this type of research, which tries to integrate empirically first offers and perceptions of negotiation strategies. Therefore, the first objective of this thesis is to measure the negotiators' perceptions concerning their own negotiation strategies in general. By excluding the offers in the first phase of the research, the purpose is to find out what negotiation strategies the negotiators are accustomed of using in a typical negotiation situation. More specifically, the aim is to find out to what extent a negotiator perceives a distributive or an integrative negotiation strategy as his or her own bargaining strategy.

The second objective of this research is to find out what are the negotiators' perceptions of their own negotiation strategies (in the extent of distributive and integrative strategies) in a first offer negotiation situation. More specifically, this thesis

tries to determine statistically if there is a potential association between a first offer and a negotiator's perception of an integrative or a distributive bargaining strategy. This attempt is carried out empirically by researching the negotiators' perceptions of their negotiation strategies in two scenarios, where a buyer makes a first offer that is either lower or higher than a negotiator's reservation value. Based on the previous research, this thesis couldn't identify an identical topic of research, and there isn't an existing instrument, which measures this phenomenon. Therefore, the last objective of the thesis is to create an instrument that measures the negotiators' perceptions of negotiation strategies in general and in the above-mentioned offer scenarios.

Negotiation in mergers and acquisitions can be described as a competitive multi issue negotiation, where typically the most important decision variable is price (Kristensen & Gärling 1997 a; Roloff 2008). According to Moran and Ritov (2002, 104) these types of negotiations often fail to reach integrative agreements. Substantial previous research has empirically demonstrated that both reservation prices and first offers affect the counteroffers and final outcomes of a negotiation (see, for example, Kristensen & Gärling 1997 a; Kristensen & Gärling 1997 b; Lukas & Welling 2011, 30). However, the association of negotiation strategy and offers has received less attention from the researchers. According to Kristensen and Gärling (2000, 504) future negotiation researchers need to measure "real life" negotiators' perceptions concerning the effects of anchor and reference points. In addition, there has been critique towards negotiation research, which suggests that there are problems in generalizability, as the previous research has been similar in its research methods. For example, Johnsson and Johnsson (2003) argue that a large number of previous negotiation research has been conducted in a laboratory setting with samples from a population of white college students from the middle class.

Due to these reasons, this thesis aims to examine the relationship between the first offers in negotiation and the negotiators' perceptions of their own negotiation strategies. Furthermore, this thesis tries to integrate the research method to "real life" by researching the perceptions of the negotiators of mergers and acquisitions, whose everyday profession consists of complex contract negotiations, which include different offer and price mechanisms. According to previous research, there is a statistically

significant association between an integrative strategy and joint payoffs and a negative association between a distributive strategy and joint payoffs (De Dreu, Weingart & Kwon 2000; Liu & Wilson 2011; Moran & Ritov 2002; Olekalns & Smith 2000). In addition, the present negotiation research suggests that a pure distributive negotiation strategy seems to relate to the characteristics, behaviors and competences of a poor negotiator, who typically destroys potential yields and the value of a negotiation ending up with worse payoffs for both parties (Liu & Wilson 2011). Therefore, it is important to research to what extent the professional negotiators perceive the distributive or the integrative negotiation strategies as their own bargaining strategies. According to Metsämuuronen (2011, 55) a researcher can present the research objectives in a form of a research question if there is a decent amount of research information concerning a certain phenomenon. In reference to this thesis' chapter three, previous research has been presented sufficiently, in order to form the following research questions:

RQ1: What kind of perceptions do the negotiators have of their own negotiation strategies, in a typical negotiation?

RQ2: How do the negotiators' perceptions concerning their own negotiation strategies vary between individuals in a typical negotiation?

According to the previous research, there is an association between a first offer and a negotiator's anchor and reference value and final outcomes of a negotiation (Barry & Fredman 1998; Galinsky & Mussweiler 2001, Galinsky, Ku & Mussweiler 2009; Kristensen & Gärling 1997 a; Kristensen & Gärling 1997 b; Kristensen & Gärling 2000; Schweinsberg, Ku, Wang & Pillutla 2011). This thesis argues in theory that integrative first offers, which are successfully placed below the opposing party's reservation value, might create a gain frame for the opposing party. This might lead to a situation where a possibility to advance in an integrative and value adding negotiation process exists. The previous research has strongly indicated that as first offers are perceived as gains from the buyer's point of view, smaller adjustments are made to the counteroffer and the selling price will increase (Kristensen & Gärling 1997 a; Kristensen & Gärling 1997 b; Kristensen & Gärling 2000; Schweinsberg, Ku, Wang & Pillutla 2011). The results

have also indicated that the first offer is typically accepted as a reference point, even though both parties have a subjective knowledge about the current market prices (Kristensen and Gärling, 1997 a). Due to these reasons, a well-communicated first offer is described as a very important phenomenon, which might dictate the success and outcomes of the entire negotiation. Therefore, it is important to find out, what happens to the negotiators' perceptions concerning their own negotiation strategies in two different scenarios, where the variable price is either higher or lower than the negotiators' reservation value. Therefore, based on the previous research and theory, the following hypothesis is presented:

H1: The negotiators' perceptions concerning their own negotiation strategies are not the same in a first scenario where a buyer presents a first offer, which is below the negotiator's reference value and in a second scenario where a buyer presents a first offer, which is above the negotiator's reference value.

4.2 Methodological framework

Researchers have developed various methods of negotiation research because it is a diverse phenomenon, which can be studied at all levels of society (Carnevale & De Dreu 2006). Arguably, negotiation skill is one of the most important human abilities, which affect to the everyday quality of life of an individual. Therefore, negotiation can be considered as one of the most valuable areas of communication research. However, few concepts are as difficult to define and measure as negotiation skill. (Spitzberg 2003, 93.) The focus and objective of this research is not skill assessment, even though a negotiator's perception of his bargaining strategy could be used to identify specific communication skills. It is important to point out that negotiation behavior relates to three noticeable areas of communication research: motivation, knowledge and skill (Spitzberg 2003, 102; Valkonen 2003).

According to Roloff, Putnam and Anastasiou (2003, 803-805) there are two general approaches to the research on negotiation. First of the two, the expert based approach research individuals who negotiate as part of their profession. These approaches have been used to study negotiation through skill nomination, reputational survey and

behavioral observation. The outcome based approaches research both professional and non-professional negotiators. These approaches have been used to study how negotiators achieve their own outcomes (distributive view), joint outcomes (integrative view) and relational outcomes (relationship view). (Roloff et al. 2003, 804-805.) This research is a mix of expert based and outcome based approaches, as it attempts to collect quantitative data from *a cross cultural* population of the negotiators of mergers and acquisitions. Therefore, behavioral observation is excluded from the method. In addition, the reputational survey method is excluded as the objective is to study the negotiators' own perceptions. From an outcome based view, this research studies the negotiators' perceptions from both own outcomes and joint outcomes. The relational outcomes, which focus on the long-term relationship strategies between the negotiating parties, are excluded from this research because of the mergers and acquisitions industry's characteristics. In mergers and acquisitions the bargaining relationship between a buyer and a seller ends when the transaction is completed.

This thesis can be categorized under communication behavior and behavioral finance research, as it tries to study the perceptions of professionals who negotiate in their daily professions. A survey research approach can be used when a researcher attempts to measure attitudes or behaviors of people with questionnaires, observations or experimental methods. The survey method enables a researcher to describe and explain human behaviors, intentions, perceptions, attitudes, opinions and thoughts of a phenomenon by gathering data from large samples of people. (Rubin, Rubin, Haridakis & Piele 2010, 218-219.) This thesis potential cross-cultural sample consist of over 300 professional negotiators. In addition, one of the thesis objectives is to measure perceptions of people. Therefore, the survey method was selected.

A theory driven approach was selected, when operationalizing the variables of this research. The main argument behind this approach is that previous reliable and valid theoretical research has already identified and operationalized the variables behind behaviors, which characterize either integrative or distributive negotiation strategies. (Weingart, Olekalns & Smith 2006, 106-109). The creation phase of an instrument can be started theory basis because theory describes and gives the best assumption of a

phenomenon. Therefore, if the critical concepts and variables concerning a phenomenon can be identified and operationalized theory basis an instrument that measures the phenomenon can also be created and used in research (Metsämuuronen 2011, 74.)

According to Wrench, Thomas-Maddox, Richmond and McCorskey (2008) the scientific empirical method can be divided into four phases. In the first phase, a researcher searches theories, which try to predict, explain and control a phenomenon. Based on the recent research results and theoretical assumptions, this thesis aims to provide descriptive data and theoretical extension to the current negotiation analytic approach by researching integrative and distributive negotiation strategies and offers in the context of merger and acquisition negotiations.

In the second phase, a researcher places hypotheses, which describe the relationship of a phenomena (Wrench et al. 2008). Wrench et al. (2008) conclude that hypotheses are deductions, which the researcher places after a series of propositions. In addition, a hypothesis can be characterized as an educated guess about the relationship between variables (Rubin et al. 2010, 218-219). In this thesis, the proposition is the relationship between a first offer and a negotiator's perception the negotiation strategy. Furthermore, the independent variable is value, which is operationalized as a first offer and dependent variable is a negotiator's perception of his or her own negotiation strategy.

According to Wrench et al. (2008) in the third phase, an observation phase, a researcher tries to test the placed hypothesis. In this research, the testing is performed empirically with a survey questionnaire and quantitative analysis. In terms of reliability, it is well founded to point out that the general assumption in communication research is that respondents might not have the same reaction and response to the same questions every time. In the fourth and final stage, the researcher tries to form empirical generalizations, which are based on the observations. (Wrench et al. 2008, 11-21.) This research attempts to provide generalizations, if the sample is large enough to report statistically significant results.

In order to satisfy the research objectives and produce objective research results in general, this research is performed by using a quantitative empirical survey method. According to Wrench et al. (2008) quantitative research method can be used when a researcher relies on large samples of people, which represent a certain population, and tries to explain a phenomenon with a scientific method. The potential sample of this research is more than 300 respondents and fits this description. Furthermore, quantitative research is typically based on descriptive and experimental methods, which describe and manipulate the relations of variables respectively (Plante, Kiernan & Betts 1994, 52). Rubin et al. (2010, 198) point out that a descriptive research attempts to describe events or conditions and explanatory research, i.e., interpretive research tries to find the underlying causes and explanations for a phenomenon. This thesis attempts to describe the negotiators' perceptions concerning integrative and distributive negotiation strategies. In addition, the independent variable price (value) has been manipulated in the questionnaire of this research, in order to provide information about the potential association of first offer and a negotiator's perception of his or her own negotiation strategy.

Research ethics are the researcher's choices of what is right and wrong during a research process. Objectivity is one of the key elements of ethical research because a researcher must be accurate, honest and precise when performing research and when analyzing and reporting the results. (Rubin et al. 2010, 204.) This thesis follows the Finnish Advisory Board on Research Integrity's (TENK) responsible conduct of research guidelines (TENK 2012, 30-33). According to TENK (2009, 1-16) the ethical principles in social science can be divided into three parts:

- 1) Respect for the self-determination of an individual, who participates in a research
- 2) Avoid of creating any kind of harm to the participant or other stakeholders associated with the research
- 3) Respect of the anonymity of an individual who participates in a research and protect the acquired research data

These three principles were taken especially into account when creating the questionnaire and analyzing the data of this thesis. For example, before the questionnaire was sent to the participants, it was sent to the participants' representative headquarter for pre pre-inspection. After they had checked and confirmed that the questionnaire didn't comprise any risky or otherwise damaging elements and given an authorization to distribute the questionnaire, it was sent to the participants via email. Enclosed with this e-mail, was a letter of authorization, which described the topic, background, expected response time, and terms of participation in this thesis. In the letter, anonymity and confidentiality, data protection, voluntary participation and right to end the participation at any time was emphasized to the participants. Rubin et al (2010, 204) point out that anonymity means that a researcher doesn't know the participants identity and confidentiality, which means that a researcher protects and doesn't disclose the names of the participants.

According to Metsämuuronen (2011, 85) one of the most important elements of research ethics is a truthful reporting of the research results, especially sample size, average and standard deviation. Truthful reporting of the analysis method and results have been taken into account when writing these sections of the thesis. In addition, anonymity was emphasized, and therefore, some of the data was reported in a less detailed manner. In conclusion, all the choices made conducting this thesis were aimed towards an honest and objective research process.

4.3 Method of Inquiry and research design

4.3.1 Data collection

According to Wrench et al. (2008) main variables that social science researchers employ in research are nominal, ordinal, interval and ratio. In addition, variables that are generally used in communication science measure traits behaviors, beliefs and perceptions. Furthermore, the ratio variables have a real quantitative meaning and the distance between values is the same from every point of view and the scale has an

absolute zero value. (Nummenmaa 2009, 42-23; Wrench et al. 2008, 118-141.) This thesis presumes that Likert-type scales as instruments provide empirically interval data (2008, 1150-1151; cf. Nummenmaa 2009, 42-43). Any research instrument can be identified to measure interval data as it is constructed from more than eight related items and in the analysis phase a sum variables are formed from multiple Likert type items (Carifio & Perla 2008, 1150; Wrench et al. 2008, 172). This thesis instrument is constructed from more than eight related items and the sum variables are formed from multiple Likert type items.

Nauta and Kluwer point out (2006, 121) that questionnaires are useful alternatives for laboratory or observational research. As data collection method, this thesis uses a survey method. Therefore, a questionnaire is created and distributed online to the respondents via e-mail. According to Wrench et al. (2008) the most common way of studying interval variables are questionnaires with Likert-type scales. To consider the technical implementation of this thesis, a five-point Likert scale was selected, when creating the questionnaire, because of its popularity and recognizability. The empirical studies have indicated that reliability and validity are improved by using five or seven point scales, but more finely divided scales do not improve the reliability and validity further (Dawes 2008).

In addition to the statements measured with five-point Likert-scale, two vignettes or scenarios were developed to the questionnaire. In vignettes or scenarios, one or more simulated constructions of an interaction situation are presented to the respondents. Therefore, well-planned questionnaires can use this kind of method in order to present statements in relation to a phenomenon. In the right circumstances, this method provides generalizable results. (Spitzberg 2003, 103-104.) In addition, the strengths of scenarios are that they can be used to focus a respondent's attention on the most interesting variables, in order to control the responding situation and to avoid ethical problems associated with the research (Jensen-Campbell & Graziano 2006, 326). According to Nauta and Kluwer (2006, 126) the use of vignettes enables researchers to manipulate the variables of a questionnaire. In this research, the value variable (price) was manipulated by presenting two types of first offer scenarios.

4.3.2 Operationalization of integrative and distributive strategies

According to Wrench et al. (2008, 178-179) operationalization is a detailed description of the process, which determines and categorizes the units of analysis, i.e., variables to a measurable form. Metsämuuronen (2011, 52) points out that, in an operationalization phase, a concept is turned into a measurable form and from these forms an instrument that measures a certain phenomenon can be created. Therefore, in the operationalization phase of this thesis, the key concepts were determined with a theory driven approach. The goal was to operationalize concepts, which can be used to assess the behaviors behind integrative and distributive negotiations strategies.

According to Metsämuuronen (2011, 74) an instrument can be created theory basis, if the theory enables a researcher to define the central concepts and their operationalization. In this thesis, a detailed description of the most important concepts are presented in the chapters two and three. In addition, both chapters present behavioral, conceptual and theoretical characteristics of the integrative and distributive negotiation and negotiator. Arguably, sufficient amount of previous research was presented as a basis, when the behaviors were defined, categorized. Therefore, the concepts presented can be operationalized into a measurable form.

From a methodological point of view, this thesis attempts to create an instrument, which measures negotiators' perceptions concerning distributive and integrative strategies the context of merger and acquisition negotiation. When creating the instrument, previous research questionnaires (see, for example, Goering 1997; Olekalns & Smith 2000; Liu & Wilson 2011; Putnam & Jones 1982), which have been proven as valid and reliable instruments, such as the Dutch test by Jansen and Van de Vliert (1997), Five Factor Model questionnaire by Barry and Firedman (1998) and Putnam's and Jones's (1982) revision of Walcott and Hopman's Bargaining Process Analysis (BPAIL) were used as an example, when operationalizing the concepts to the form of statements. The following concepts, which are defined below, were identified from previous research.

Components, which can be assessed to measure integrative strategies:

1. **Problem-Solving:** Actively searching for a creative solution that meets both own and other parties' goals and interest (high concern for self and others). In addition, consists of the exchange of information about priorities and preferences. (De Dreu, Evers, Beersma, Kluwer & Nauta 2001, 646-647; DeDreu 2006; Nauta & Kluwer 2006; Roloff, Putnam & Anastasiou 2003.)
2. **Information Sharing:** Sharing of priority information, requesting priority information, exchange of information about preferences (Barsness & Bhappu 2004; Weingart & Olekalns 2004; Roloff, Putnam & Anastasiou 2003).
3. **Altercentrism (Agreeableness):** An ability to show interest in, concern, trust for, and attention to the other person (Barry & Friedman 1998; Sptzberg 2004).
4. **Logrolling:** Proposing of multi-item offers, options or tradeoffs (Carnevale & De Dreu 2006; De Dreu 2004). Logrolling is defined as a different variable than Problem-Solving (Roloff, Putnam & Anastasiou 2003).
5. **Assertiveness:** Being soft but forceful and firm and at the same time using reasoning to support own offers and actions, feelings beliefs and interests. Proposing modifications to an opponent's offer and offering opponent a concession, introducing a new topic, accepting opponent's point of view but no offer. (Sptzberg 2004; Rakos 2006.)
6. **Gain-Frame:** Positive reaction to an offer (Dillard & Marshall 2006, 503; Weingart & Olekalns 2003).

Components, which can be assessed to measure distributive strategies:

1. **Forcing:** Actively searching for a solution that meets own interests and goals and maximizes own profit. High concern for self and low concern for others. Involves, e.g., threats, bluffs, persuasive, arguments. (De Dreu, Evers, Beersma, Kluwer & Nauta 2001, 646-647; Nauta & Kluwer 2006.)
2. **Verbal aggression: Offensive:** explicit rejection of an opponent's offer, threats and promises, coercive power, bluffs and walk away threats, attacking and persuasive arguments. This component represents variant styles of aggressive behavior. (Hample 2003, 450-451.)

3. **Selfishness:** Self-supporting arguments, positional comments, building a fortress around bargainer's position. This component represents a person's concern for oneself and one's interests above the interests of others. (De Dreu 2004, 115-117.)
4. **Compromising:** Striving for an even distribution of the pie, without trying to enlarge it. This component represents a person's willingness to split everything between negotiating parties. (De Dreu, Evers, Beersma, Kluwer & Nauta 2001; De Dreu 2004, 119.)
5. **Distrust:** Individuals' negative expectations and beliefs about the other person's interpersonal perceptions, hostile attitudes. This component represents bargainers distrust towards the opponent. (De Dreu 2006; Kramer 2006.)
6. **Loss-Frame:** Negative reaction to an offer (Dillard & Marshall 2003; Roloff, Putnam & Anastasiou 2003).

These components of integrative and distributive behaviors were operationalized theory basis in a form of a questionnaire consisting of 33 statements. The statements are presumed to measure the phenomenon of integrative and distributive negotiation strategies. The price (value) variable was operationalized as first monetary offer(s) in high and low scenarios' of the questionnaire. In total, the original instrument consisted of 33 statements all measured with five point Likert scale. Of the statements, 15 were assessed to measure distributive behavior and 16 were assessed to measure integrative behavior. In addition, two neutral statements were created, which attempted to provide background information of the respondents. The full version of the final questionnaire is presented in the appendix 1 of this thesis.

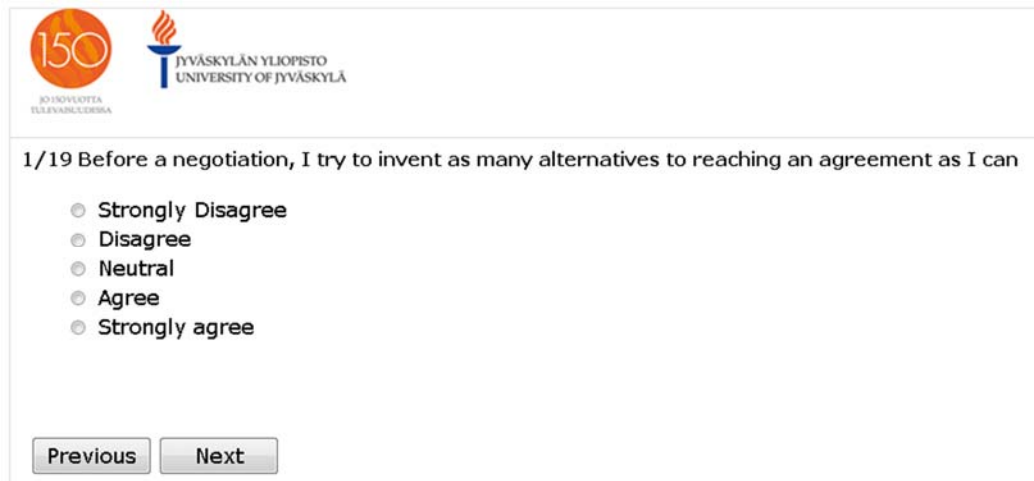
4.3.3 Survey questionnaire

The research data of this thesis was gathered online with a questionnaire. The created instrument consisted of 33 statements, i.e., items that were measured with a five point Likert-type scale. All the statements were measured in the same way. On a scale of one to five, 1 denoted strongly disagree, 2 denoted disagree, 3 denoted neutral, 4 denoted agree and 5 denoted strongly agree. The instrument consisted of three subscales. The

first subscale consisted of 19 items and intended to measure negotiators' perceptions concerning their own negotiation strategies in general. Both the second subscale and the third subscale consisted of seven statements. These subscales intended to measure the negotiators' perceptions of negotiation strategies in a typical negotiation scenario, where a buyer presented to the negotiators either a higher or a lower first offer than their reference value.

The instrument was tested with a pilot study. When the pilot study was conducted, the participant's time spent in responding was measured. In addition, the participants

FIGURE 11 Example of the thesis' online based survey statement



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UNIVERSITY OF JYVÄSKYLÄ

1/19 Before a negotiation, I try to invent as many alternatives to reaching an agreement as I can

- Strongly Disagree
- Disagree
- Neutral
- Agree
- Strongly agree

Previous Next

were asked to give feedback of the statements. Statements such as *"I try to wait for the last moment before I make my concession to the buyer"* and *"a good first offer is as high as possible, as my target is to make an offer so high that a buyer can hardly afford it"* and *"One of my main goals in a negotiation, is to exchange information with the buyer as much as possible"* and *"The owner of Company A just won/lost 30 million"* that were complex and hard to understand, were removed from the questionnaire.

Based on the feedback and critical reevaluation, six items were removed from the questionnaire. Furthermore, small adjustments were made to the final statements. For example, a word disagreement was changed to a word situation. In overall, the pilot study participants' feedback indicated that responding to the statements was easy, the questionnaire was well understandable, and the time to completion was "short

enough. The goal of time spent in participation was under 15 minutes. The outlook of this thesis questionnaire is presented graphically in FIGURE 11.

4.3.4 Sample

According to Rubin et al. (2010, 201-202) and Frey and Botan and Krepps (2000, 130-133) there are two ways of sampling a survey population: a probability sampling, which uses random sampling techniques to gather a representative group from the population or nonprobability sampling, which uses selection techniques to gather a particularly selected representative group from the population. This thesis uses nonprobability sampling method to gather a sample from the population of advisors, i.e., negotiators of mergers and acquisitions.

Although nonprobability sampling does not permit to generalize the results of this thesis to more general population such as all the business negotiators, the method enables a researcher to explore a relevant phenomenon with more in-depth way (Frey et. al. 2000, 131-133; Rubin et al. 2010, 201-202). Therefore, a quota sample method was selected, as it enables a researcher to study a selected sample of the negotiators from the population of the negotiators of mergers and acquisitions. The sample of this research consisted of professional advisors who work in the industry of mergers and acquisitions and corporate finance. All of the sample data was gathered from an organization, which operates cross culturally in over 20 countries offering a wide array of financial advisory services from mergers and acquisitions advisory to capital restructuring and other strategic advisory activities.

4.3.5 Respondents

Invitation letter to participate in this study was sent via e-mail to 308 potential respondents. In general, the respondents' profession consist of corporate finance activities, which include, for example, investment banking, debt advisory and capital restructuring activities. The respondents are specialized in the sell side and the buy side advisory of mergers and acquisitions, which most important task is negotiation. Throughout this thesis, the respondents are referred as negotiators. The rate of

response (9.7%) was poor, and the resulting sample totaled to 30 respondents. The significant majority (>90%) of the respondents were male. The respondents' age was categorized into the following groups: less than 35 years (f= 9), in between 35-45 years (f= 9), in between 46-55 years (f=4), in between 56-60 years (f=6) and more than 60 years (f=2). The majority of the respondents (60%) were under 46 years of age. Geographically the responses were received from Europe (80%), Americas and Asia-Pacific (20%).

4.3.6 Analysis

The analysis of this thesis was performed using SPSS 20.0 statistical program and MS Excel, to compute and analyze the data, to examine descriptive statistics and to perform a principal component analysis (PCA), reliability analysis and paired samples t-test. The principal component analysis was performed, in order to test the created instrument. The theory driven precondition was that the latent variables, integrative and distributive strategy, explain well the loadings of statements assessed to measure distributive and integrative components. Therefore, if the statements of the questionnaire measure the same underlying dimension, there is an expected correlation between the statements. The principal component analysis was completed in four phases. The first phase consisted of, calculation of the r-matrix and preliminary analysis. In the preliminary analysis, all inter-item correlations greater than 0.3 were accepted. Additionally, the Kaiser-Meyer-Olkin (KMO), Bartlett's test of sphericity and calculation of the determinant was performed, in order to ensure that the PCA could be completed. The second phase consisted of the estimation of the loadings of the components. The factor loadings below 0.4 were suppressed from the results. The third phase consisted of calculation of the rotations. In this case, varimax rotation was selected. The final phase consisted of the calculation of factor scores.

The internal consistency method and calculation of the Cronbach's alpha was selected as a method of reliability analysis. The Cronbach's alpha reliability method is designed for an instrument, which is constructed from many different parts. A typical example of this is a survey instrument, which is constructed from several different statements (Nummenmaa 2009, 356). In addition, Cronbach's alpha is considered generally as the

most common measure of instrument reliability, and it should be applied separately to an instrument's different sections. (Field 2009, 676-706.)

In order to find out do the sum variables' averages of the first scenario and the second scenario differ from another, the t-test, with a repeated measures design (i.e., paired-samples t-test) was selected as a method of analysis. According to Nummenmaa (2009, 178) the paired-sample t-test can be performed with relatively small samples.

Furthermore, this type of t-test can be used, when the same respondents take part in both parts of an experiment. The main idea behind this t-test was the following: If the average difference between the sample groups' perceptions is statistically large and the standard error of differences is small, it is possible to indicate that the difference observed is not a result by chance, and it must have been caused by the manipulation of a variable. (Field 2009, 325-329.) In this thesis, the manipulated variable is the value (price) variable, which was operationalized as a first offer and the sample groups are formed by the means of the first and second scenarios.

In addition, an effect size was calculated in connection with the t-test. According to Nummenmaa (2009, 383-389) the effect size is not dependent from a sample size and it estimates how much of the variation of a dependent variable can be explained with the independent variable. The common interpretation of the effect size is that negative values indicate an effect, which is against the alternative hypothesis and positive values indicate an effect, which supports the alternative hypothesis. The effect size can be calculated by using Cohen's d or Pearson's r formulas. In most cases, the Pearson's r is more convenient to report and meaningful to interpret. (Field 2009, 334; Nummenmaa 2009 383-389.)

Before the analysis phase, all the items, which were negatively worded such as "My aim is to make fewer concessions than the buyer" were reverse coded so that all the scales measured the responses similarly on every item. In other words, all the scales used in the analysis were transformed into five-point Likert scales (1= Strongly Disagree, 2= Disagree, 3= Neutral, 4= Agree, 5= Strongly agree), where 1 was equivalent to distributive perception and 5 was equivalent to integrative perception.

5. RESULTS

5.1 Analysis of the mergers and acquisitions negotiators' bargaining strategy scale

5.1.1 Principal component analysis

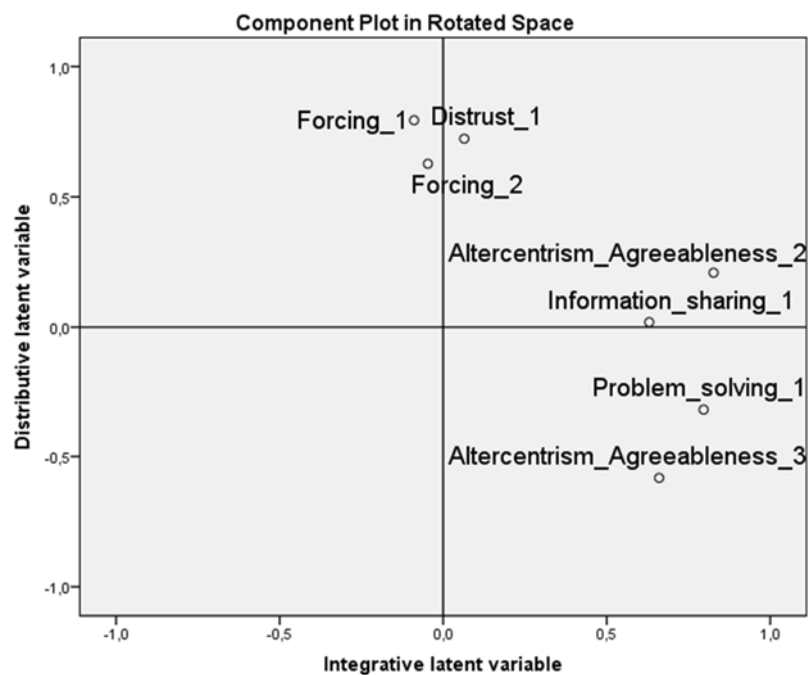
The Principal component analysis (PCA) was performed on the 19 items of the instrument, which was named as the mergers and acquisitions negotiators' bargain strategy scale (MABSS). Based on the table of correlation coefficients between items, the original instrument including 19 different items assessed to measure the latent integrative and distributive components, was reduced into seven statements due to weak correlation ($<.3$) and linear relationship between the items. The principal component analysis was conducted on the seven remaining items with an orthogonal rotation (varimax) as distributive and integrative strategies are expected to be independent latent variables.

In order to verify that the PCA provided decent results, typical tests were performed to the reduced MBASS. The Kaiser-Meyer-Olkin (KMO) test, Bartlett's test of sphericity and calculation of the determinant verified that the new reduced correlation matrix between statements was sufficient for the principal component analysis. The Kaiser-Meyer-Olkin (KMO) test resulted to .58. According to Field (2009) the limit of the KMO test .5. According to Field (2009), a Bartlett's test of sphericity is acceptable, if the significance level is below .05. This indicates that the correlation between variables was sufficient for the PCA. (Field 2009). In the analysis of the data, the Bartlett's test of sphericity resulted to $\chi^2 (21) = 58.131, p < .0001$, which indicated the sufficiency of the correlations between the variables of this research.

According to Field (2009) if the correlations between items are near to zero, the PCA's results are not sufficient. In this thesis, all the correlations between the items were significantly different from zero. Therefore, the items weren't perfectly independent

from one another. According to Field (2009), this means that clusters of items can be identified with the PCA. However, if the determinant is not significantly larger than .00001 the results are too highly correlated and this multicollinearity is a signal that something is wrong (Field 2009). The determinant of this thesis data was .105. Therefore, the result was significantly larger than .00001, which in this case indicated that multicollinearity wasn't a problem. According to the expectations and parallel to the previous research, two latent variable components were extracted from the data. Both of the two components had eigenvalues over the

FIGURE 12 Integrative and distributive factor plot



Kaiser's criterion of one, which according to Field (2009, 641) and Lance, Butts and Michels (2006, 210-212) is a minimum criteria for an instrument, which is constructed from few items. This criterion was selected because the final instrument of the thesis consisted of less than thirty items. The eigenvalue for the first component was 2.6 and for the second 1.6. The first component was named as the integrative latent variable and the second component as the distributive latent variable. These two components explained together 59.95 % of the variance of the data. The integrative and distributive

latent variables explained 30.92 % and 29.03 % of the variance of the data, respectively.

The items (statements) that had similar variance and loaded to integrative latent variable were: *“I offer concessions to the buyer in order to maintain good atmosphere”* and *“I aim to find a solution that meets both parties’ needs and concerns”* and *“I trust the buyer”* and *“I aim to tell the buyer, what are my first priorities and understand what are her/his first priorities”*. The statements that had similar variance and loaded to distributive latent variable were: *“I try to make sure that the buyer will not achieve his/her goals by the end of the negotiation”* and *“I believe often that the buyer is trying to mislead me”* and *“My aim is to make fewer concessions than the buyer”*. From the factor plot in figure, 12 this can be observed visually, as there are two visible clusters of items. In the factor plot, the co-ordinates of statements along each axis represent the strength of the relationship between an item and each latent variable component.

The results of the PCA suggest that the statements loaded into the two components in a theoretically sufficient way. The table 3 shows the factor loadings after rotation. The table indicates, how much one latent variable, either distributive or integrative, explains of an individual item’s variation. The table indicates that both of the latent variables explain a significant amount of the variation of the individual statements, which were loaded to them after the varimax rotation.

TABLE 3 Factor loadings after rotation

Rotated Component Matrix Statement	Component	
	Integrative latent variable	Distributive latent variable
I offer concessions to the buyer in order to maintain good atmosphere (Altercentrism_Agreeableness_2)	.83	
I aim to find a solution that meets both parties’ needs and concerns (Problem_Solving_1)	.80	
I trust the buyer (Altercentrism_Agreeableness_3)	.66	
I aim to tell the buyer, what are my first priorities and understand what are her/his first priorities (Information_Sharing_1)	.63	
I try to make sure that the buyer will not achieve his/her goals by the end of the negotiation (Forcing_1)		.79
I believe often that the buyer is trying to mislead me (Distrust_1)		.72
My aim is to make fewer concessions than the buyer (Forcing_2)		.63

Communalities measure how well the common variance of one variable can be described together with all of the components. The typical interpretation is that the PCA can't sufficiently explain the variation of communalities smaller than .30. (Field 2009; Nummenmaa 2009, 403.) The table 4 shows the communalities, all of which after extraction resulted to a value greater than .40. The table illustrates that the components together, explain relatively well the variation of a single item. In conclusion, the results from the principal component analysis indicate that the MABSS scale is sufficient for further analysis. In addition, results obtained with the PCA suggests that the latent integrative and distributive components exist, and these components can be measured with the items listed below in the table 4.

TABLE 4 Communalities

Communalities	Initial	Extraction
I trust the buyer (Altercentrism_Agreeableness_3)	1	.78
I aim to find a solution that meets both parties' needs and concerns (Problem_Solving_1)	1	.74
I offer concessions to the buyer in order to maintain good atmosphere (Altercentrism_Agreeableness_2)	1	.73
I aim to tell the buyer, what are my first priorities and understand what are her/his first priorities (Information_Sharing_1)	1	.40
I try to make sure that the buyer will not achieve his/her goals by the end of the negotiation (Forcing_1)	1	.64
I believe often that the buyer is trying to mislead me (Distrust_1)	1	.53
My aim is to make fewer concessions than the buyer (Forcing_2)	1	.40

5.1.2 Reliability analysis

The questionnaire of this thesis has two versions of the scale. The first version measures negotiators' perceptions of their own negotiation strategies in general. The second version measures a first offer's association to the negotiators' perception of their own negotiation strategies. More precisely, in the second version of the scale an independent variable value in the form of offer price, is introduced to the respondents in a form of two scenarios. In the first scenario, a buyer presents a first offer, which is lower than the respondent's reservation value. In the second scenario, a buyer presents a first offer, which is higher than the respondent's reservation value. Therefore, in both scenarios the respondents' reaction to the offers is measured by

means of their perceptions and selection of preferred negotiation and counteroffer strategies.

In order to assess the reliability of the scales, three separate reliability analysis were carried out. Although the principal component analysis suggested that the correlation was weak between the statements for the first version of the scale, a full reliability analysis was conducted for the original 19 statements of the MABSS scale. This was done because of verification purposes, and to assure that sufficient amount of inferior items were removed from the analysis. The first version of the scale, including 19 statements or items, had a very low reliability, ($\alpha=.354$) with a confidence interval⁸ of 95% CI [-.04, .65]. This result wasn't considered acceptable, and the scale was reduced from the original 19 items to seven items on the basis of the principal component analysis. The recalculated Cronbach's alpha for the new scale consisting of seven items had acceptable reliability ($\alpha=.68$), with a confidence interval of 95% CI [.41, .84].

For the first version of the scale, the inter-item and item-total correlations between variables varied between $r [-.18, .64]$ and $r [.22, .74]$, respectively. The range of these correlations indicated that the inter-item correlation was weak between some items. Additionally, the range of this data indicated that, in some items, there was a relatively low correlation within the inter-item correlations. This result suggests that these items of the scale didn't measure necessarily the same construct because there was a low relationship between the items. The range of item-total correlations indicated that all of the items solely, correlated positively with the average of all the items. This result suggests that in overall all of the items measured the same construct.

The second version of the scale measured a negotiator's perception of his or her own negotiation strategy in two scenarios, where a buyer presented to the negotiator either a lower or a higher first offer than the negotiator's reference value. For the first scenario, the scale had an acceptable reliability ($\alpha = .51$), with a confidence interval of 95% CI [.19, .74]. The inter-item and item-total correlations for first scenario's scale were $r [-.16, .55]$ and $r [-.09, .46]$, respectively. For the second scenario, the scale had an acceptable reliability ($\alpha = .54$), with a confidence interval 95% CI [.23, .75]. The

⁸ The confidence interval was calculated using Feldt's formula (Metsämuuronen 466, 550).

inter-item and item-total correlations for the second scenario's scale were $r [-.21, .78]$ and $r [-.16, .58]$, respectively. Similarly, compared to the first version of the scale, in the second version of the scale, some of the inter-item and item-total correlations were low, which suggest that not all of the items measure the same construct. In all of the scales, the inter-item correlations' mean was positive, which indicates that in overall the items measured the same construct. Furthermore, the alphas for the first and second scenario turned out to be very similar (difference of .03), which indicates that the scales measure the same underlying latent constructs in a similar way.

5.1.3 Normality test

Three separate tests of normality were performed for the sum variables of the both versions of the scale. According to Field (Field 2009, 144-148), the normality of a scale can be tested with Kolmogorov-Smirnov and Shapiro-Wilk tests. If the results from these tests are significant ($p < .5$), then the distribution is differs significantly from a normal distribution (Field 2009, 144). The first sum variable, named as general distributive-integrative variable, formed from the first version of the scale consisting of seven items, was significantly non normal Shapiro-Wilk = .95, $p < .5$ and Kolmogorov-Smirnov $D(30) = .16$, $p < .5$. The second sum variable, named as distributive offer variable, formed from the first scenario of the second scale consisting of seven items, turned out as significantly non-normal Shapiro-Wilk = .95, $p < .5$ and Kolmogorov-Smirnov $D(30) = .21$, $p < .5$. The third sum variable, named as integrative offer variable, formed from the second scenario of the second scale consisting of seven items approximated normal a distribution Shapiro-Wilk = .95, $p > .05$. However, the Kolmogorov-Smirnov $D(30) = .17$, $p < 0.5$ suggested a non-normal distribution.⁹

According to Metsämuuronen (2011, 644-645), the normality of a scale can be tested with skewness and kurtosis. In terms of skewness and kurtosis, two of the sum variables of this research turned out not to be distributed normally. The analysis of the

⁹ The Kolmogorov-Smirnov is reported but not accounted for in this thesis as the sample < 50 (Nummenmaa 2009, 155)

general distributive-integrative sum variable resulted to a negative skewness (-1.08) and positive kurtosis (1.92). A negative skewness means that most of the respondents' sum scores are located above the sample mean. This result suggests that most of the respondents' perceptions concerning their negotiation strategies in general were more integrative than distributive.¹⁰

The Z-skewness test for the general distributive-integrative sum variable resulted to, Z-skewness, $Z = -2.54 < |1.96|$, $p > .5$ and Z-kurtosis, $Z = 2.30 > |1.96|$, $p < .5$, which indicated that the distribution for the general distributive-integrative variable wasn't significantly skewed but it was significantly kurtotic (leptokurtic). These types of Z-scores indicate that the respondents' scores are distributed symmetrically below and above the sample mean, but the distribution has a higher peak point and flatter tails than a normal distribution. Arguably, this type of distribution resembles the shape of a t-distribution. Therefore, for example, if a respondent's score were selected randomly from this type of distribution the odds would be greater that the score was located near the mean score than the tails of the distribution. Contrarily, in the same situation with a normal distribution, the odds of randomly selecting the score from the tails would be higher.

The analysis of the distributive offer sum variable resulted to a negative skewness (-1.23) and positive kurtosis (2.49). The interpretation in this case is the same as for the general distributive-integrative sum variable. The Z-skewness, $Z = -2.9 < |1.96|$, $p > .5$ and Z-kurtosis, $Z = 2.99 > |1.96|$, $p < .1$ indicated that the distribution for the distributive offer sum variable wasn't significantly skewed, but it was significantly kurtotic (leptokurtic). Again, the interpretation in this case is the same as for the general distributive-integrative sum variable. The analysis of the integrative offer sum variable resulted to negative skewness (-.74) and positive kurtosis (.71). In addition, Z-skewness, $Z = -1.7 < |1.96|$ and Z-kurtosis, $Z = .85 < |1.96|$ indicated that the distribution for integrative offer sum variable wasn't significantly skewed or kurtotic. This result means that the distribution of integrative offer sum variable was symmetrical and, in fact, it was normally distributed.

¹⁰ The sample mean for the General Integrative-Distributive-Scale was 3.5

5.2 Negotiators' perceptions of their own negotiations strategies

In order to answer to the first and second research question (RQ1 and RQ2¹¹), the results based on the general distributive-integrative sum variable were analyzed descriptively. The general distributive-integrative sum variable measured negotiators' perceptions concerning distributive and integrative negotiation strategies in a typical mergers and acquisitions negotiation. The starting point of the descriptive analysis was that a sum score above 3.5 was considered as an integrative perception, a sum score below 2.5 as a distributive perception and a sum score from 2.5 to 3.5 as a neutral perception. In the distribution, the minimum value of a respondent's sum score was 1.71 and maximum value 4.43.

Based on frequencies, the respondents' perceptions of their own negotiation strategy were characterized either integrative or neutral. Half of the respondents' sum scores were larger than 3.55 (50%, f=15). The second largest group of respondents' scored in between 2.55 and 3.54 (about 43%, f=13). These results indicate that the half of the respondents scored high (scale from 1 to 5) in the statements assessed to measure integrative and distributive negotiation strategies. If the respondents responded honestly, these individuals implicitly or explicitly had a clear perception of their negotiation strategy, which based on the scores was more integrative than distributive in a typical negotiation situation. Viewed from another angle, half of the respondents perceived that they were "not sure" of their own negotiation strategy because their scores rounded out to a neutral score. In line with the theory of this thesis, the frequencies indicated that a significant minority (6.6%) of the respondents assessed their own negotiation strategy in a typical negotiation as more distributive than integrative.

¹¹ RQ 1: What kind of perceptions do negotiators have of their own negotiation strategies, in a typical negotiation?

RQ 2: How do the negotiators' perceptions concerning their own negotiation strategies in a typical negotiation vary between individuals?

On average, the respondents' perceptions of their own negotiation strategies were similar and didn't vary between individuals significantly. The majority of the data (80 %, $f=24$) lied within one standard deviation from the sample mean, which indicates that most of the participants' scores are very close to the sample mean. Additionally, this result suggest that the distribution is very close to a normal distribution because of the three-sigma rule. Parallel to the frequency data, based on the standard deviation, the respondents' perceptions varied between individuals from neutral to integrative ($M=3.45$, $SD =.57$). Compared to frequencies, the main difference was that none of the respondents' perceptions of their own negotiating strategies couldn't be classified as distributive. Although the respondents of this research from a cross-cultural sample, the standard deviation of the respondents' scores (.57) can be interpreted as relatively small. This means that the respondents had similar perceptions and the responses were relatively homogeneous.

The confidence interval for the sample mean was 95% CI [3.24, 3.67]. This figure suggests that by answering to the thesis questionnaire, a random negotiator drawn from the population of mergers and acquisitions advisors would, with a very high probability, score in between neutral and integrative perception of his or her own negotiation strategy. The standard error of the sample mean was very small ($SE= .10$). This indicates that there is relatively small deviation (difference) between the sample mean and the population mean. This signifies that the sample mean is very close to a population mean. In other words, the results suggest that this thesis' sample is a relatively accurate reflection of the entire population of the negotiators of mergers and acquisitions. Furthermore, the distributive-integrative sum variable was left tailed (skewness -1.08), which indicates that the majority of the data is centered on the integrative side of the distribution ($Mdn=3.5$). In conclusion, descriptively all of the results suggest that, on average, the negotiators perceptions didn't vary between individuals significantly. Compared to the normal distribution, in this data also there were extreme scores, which imply that some of the respondents, in fact, had an extremely 'integrative or distributive' perception of their own negotiation strategy. In addition, the overall results propose that a respondent's understanding of his/her own negotiation strategy in a typical negotiation is more integrative than distributive.

5.3 Association of a first offer with the negotiators' perception of their negotiation strategy

As offers and value can be described as the most important subjects of negotiation, it is valuable to research, what happens to a negotiator's perception of his or her own negotiation strategy when the variable value (price) is manipulated. In order to accept or reject the hypothesis (H1¹²) of this research, which briefly stated that the negotiators' perceptions of their own negotiation strategies are not the same in the first and the second scenario, a descriptive analysis and a t-test was performed. The scenarios and the statements selected to be analyzed descriptively are presented in table 5.

TABLE 5 Scenarios of the second version of the scale

Scenario	Reservation value	First offer	Statement 1	Statement 2
Scenario 1	100 million US\$	70 million US\$	I am pleased with the buyer's first offer of 70 million US\$	My counteroffer will be as high as possible and certainly more than 100 million US\$
Scenario 2	100 million US\$	130 million US\$	I am pleased with the buyer's first offer of 130 million US\$	My counteroffer will be as high as possible and certainly more than 130 million US\$

In the first scenario, a buyer presented a 30 % lower offer (US\$70 million) than the respondents' reservation value (US\$100 million). In the first statement of this scenario, the respondents' gain and loss frames were measured on the basis how pleased they were with the buyer's first offer. Descriptively, the respondents experienced the situation with a loss frame as a majority of the participants were not pleased with this offer (77 %, $f=23$). This suggests that the respondents' perception of the first offer was distributive ($M=1.87$, $SD=1.04$)¹³ with a confidence interval of 95% CI [1.5, 2.2]. This finding is in line with the previous research, which has argued that an offer higher than

¹² The negotiators' perceptions concerning their own negotiation strategies are not the same ($\bar{x}_1 \neq \bar{x}_2$) in the first scenario where a buyer presents a first offer, which is below the negotiator's reference value and in the second scenario where a buyer presents a first offer, which is above the negotiator's reference value.

¹³ In this paragraph all the sum scores are not recorded as they are analyzed independently

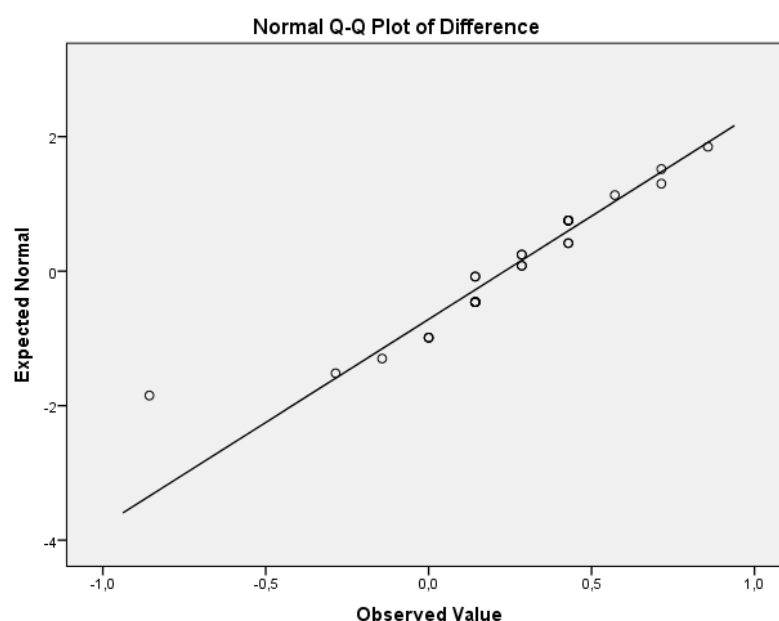
a negotiator's reservation value leads to a negative frame and distributive negotiation strategy. However, there was a large standard deviation in the results, which indicates that the respondents' perceptions of this situation varied relatively much.

The respondents' negotiation strategy in association to the first offer was researched based on their perceptions of counteroffer strategies, which were presented in the second statement of the first scenario. In the statement, the respondents were presented a choice of counteroffer, which was about 43 % above the buyer's first offer of 70 million (US\$100 million). The respondents' perception of this situation was measured in terms of how willing they would be of making this kind of a counteroffer. Half of the respondents were willing (50.0 %, $f=15$), about one third (30 %, $F=9$) were neutral and a slight minority were unwilling (20 %, $F=6$) to make this kind of counteroffer. This result indicates that the majority of the respondents perceived that a distributive extreme counteroffer was a strategically good option for this scenario. This result is parallel to the theoretic model, which argues that extreme first offer is followed by extreme counteroffer. In addition, this is an indication of a distributive negotiation. However, the moderate standard deviation of the result indicates that the respondents' perceptions in this situation weren't completely similar ($M=3.43$, $SD=0.97$, $SE=.18$) with a confidence interval of 95% CI [2.8, 4.0].

In the second scenario, a buyer presented 30 % higher offer (US\$130 million) than the respondents' reservation value (US\$100 million). In the first statement of the second scenario, the gain and loss frames were measured on the basis of the respondents' satisfaction with the first offer. Descriptively, the negotiators perceived the situation with a gain frame as a majority of them were pleased with the buyer's first offer (60 %, $f=18$). This suggests that the respondents' perception of the first statement was more integrative than distributive ($M=3.53$, $SD=1.17$, $SE=.21$) with a confidence interval of 95% CI [2.8, 4.3]. In the second statement of the second scenario, the respondents were presented a choice of counteroffer that was about 30 % above the buyer's first offer (US\$130 million). The respondents' perception of this situation was measured in terms of how willing they would be in making this kind of a counteroffer. A slight majority of the respondents were willing to make this kind of counteroffer (53 %, $f=16$), about one third neutral (33 %, $F=10$) and a minority unwilling (13 %, $F=4$).

Although, the first offer was above the respondents' reservation value, the result suggests that the majority of the respondents perceived that an extreme counteroffer was a strategically good option in this scenario. The result does not correspond to this thesis' theoretic model, which argues that an offer above a reservation value is followed by less extreme counteroffer from a respondent. However, the standard deviation of the result indicates that the respondent's perceptions in this situation varied moderately ($M=3.53$, $SD=.90$, $SE= .16$) with a confidence interval of 95% CI [3.0, 4.1].

A normality test was performed for the differences between the sum scores of the second version of the scale in order to ensure that the distribution approaches the normality assumption. The Shapiro-Wilk $=.95$, $p<.05$, and the Kolmogorov–Smirnov $D(30) = .007$, $p<0.5$. suggested a non-normal distribution. However the graphic Q-Q-plot, which is presented in figure 15, indicated roughly a normal distribution. In addition, the mean and median ($M=.23$. $Mdn=.21$) were very similar compared to the size of the sample. This can be defined as an indicator of normal distribution (Nummenmaa 2009, 73.) The analysis of differences between the sum scores variable indicated a negative skewness $= -1.04$ and positive kurtosis 3.42 . $Z_{skewness} = -2.44 < |1.96|$, $p<.01$ and $Z_{kurtosis} = 3.42 > |1.96|$, which showed that the variable was not skewed but it was significantly kurtotic. This means that the findings are distributed symmetrically below and above the sample mean. In terms of central limit theorem, the sampling



distribution of any data is expected to tend to normal distribution $x \sim \Phi$, when $n \rightarrow \infty$ (Nummenmaa 2009, 139; Field 2009). Therefore, even though the sample of this thesis is small, it can be considered sufficient for statistical analysis. Based on normality test, not all of the indicators of normality suggested that the distribution for the differences between the sum scores of the second version of the scale isn't normally distributed. This can be also graphically identified from the Q-Q plot in figure 13, which presents only one outlier.

The t-test for the sum variables of the scenarios indicated that there was a statistically significant difference in the scores for the low offer ($M=3.2$, $SD=.36$, $SE=.07$) and for the high offer ($M=3.5$, $SD=.46$, $SE=.08$) and the participants' perception of their own negotiation strategy, $t(29)=-3.92$, $p < .0005$. This indicates that there is a very low probability that this observed difference in the sample is a result of chance.

Furthermore, the confidence interval 95% CI $[-.35, -.11]$ indicated that the true value of the mean difference is not likely to be zero. Therefore, as this difference is not a result of chance and doesn't equal to zero, it is associated with the manipulation of the value variable. In this research, the manipulation of the value variable was performed by presenting the respondents two different first offer scenarios. The result of the t-test suggests that a first offer is associated with the negotiators' perception of their own negotiation strategy. Furthermore, the negative t-value means that the first scenario had a smaller mean than the second scenario suggesting that the buyer's high offer was associated with a more "integrative perception" than the low offer. In addition, the t-test resulted in a very strong positive relationship between the variables $r(28) = .71$, $p < .001$, which assures that the same respondents were measured twice.

In order to ensure that the result was substantive, an effect size¹⁴ was calculated for the t-test. The effect size was large and indicated a substantive finding ($r=.59$). This result suggests that the independent variable value, which was operationalized as the first offer, explained about 59 % of the variation of the both scenarios' sum variables. Furthermore, the positive effect size can be interpreted as an indicator which supports

¹⁴ The effect size was calculated using Pearson's r , $r = \sqrt{\frac{t^2}{t^2 + df}}$ (Nummenmaa 2009, 385; Field 2009)

the hypothesis of any research, and therefore, the finding of this thesis is not due to chance (see, for example, Nummenmaa 2009, 381).

6. DISCUSSION AND EVALUATION

6.1 Conclusions and practical contributions

Substantial amount of previous negotiation research has concentrated purely in either offer strategies of negotiation (see, for example, Barry & Friedman 1998; Galinsky & Mussweiler 2001, Galinsky, Ku & Mussweiler 2009; Kristensen & Gärling 1997 a; Kristensen & Gärling 1997 b; Kristensen & Gärling 2000; Schweinsberg, Ku, Wang & Pillutla 2011) or communication strategies of negotiation (see, for example, De Dreu, Weingart & Kwon 2000; Moran & Ritov 2002; Liu & Wilson 2011; Olekalns & Smith 2000; Putnam & Jones 1982; Roloff, Putnam & Anastasiou 2003). It is worth pointing out that when a negotiation party concentrates purely in either an offer or a communication strategy, the party might not perform successfully in a negotiation. For example, the research which has indicated, from a seller's point of view, that a successful negotiator can negotiate on average about 30-40 % merger premiums (see, for example, Ang, Cheng & Nagel 2008; Aktas, De Bodt & Richard 2010) doesn't account for the strategic ways how to interact successfully in a negotiation situation. Additionally, the research which argues that the best option in a negotiation is to make the first offer and exploit the anchoring effect (see, for example, Galinsky, Ku & Mussweiler 2009; Kristensen & Gärling 1997 a; Kristensen & Gärling 1997 b) doesn't take a stance on the preferred communication behavior.

In other words, the research that has concentrated on offers hasn't paid attention to the way how offers are communicated. On the other hand, the research which has concentrated, for example, on interaction phases, sequences and other micro elements of negotiation (see, for example, Liu & Wilson 2011; Olekalns & Smith 2000), has suggested how a successful negotiator communicates strategically but hasn't taken into account, what is a successful offer in terms of monetary units. Therefore, even though negotiation is a multidisciplinary subject of research, there seems to exist a theoretical and research gap between communication strategies of negotiation and offer strategies of negotiation.

This thesis tried to answer partly to this problem and attempted to integrate a part of the communication strategy research to a part of the offer strategy research. Briefly described, the thesis sought to identify the professional negotiators' perceptions of their own negotiation strategies in a first offer situation. Additionally, the purpose of this thesis was to research working professionals because this expert based approach of negotiation research was considered as a valuable research method. Moreover, the need for this type of research emerged from previous research.

The first research objective of this thesis was to describe the negotiators' perceptions of their own negotiation strategies in a typical negotiation. The intention was to draw the respondents' attention purely towards communication in negotiation, in order to find out which strategy (in the extent of integrative and distributive strategies) the respondents perceived as the preferred strategy. The next research step was to introduce the variable value (price) to this framework and study, if the manipulation of it could change the negotiators' perceptions of the preferred communication strategy. Therefore, the second objective of this thesis was to examine the association between a buyer's first offer, which was either higher or lower than the negotiators' reservation value, and the negotiators' perception of their own negotiation strategy in relation to this first offer. In order to answer to these objectives, an instrument that measured this phenomenon had to be operationalized and created. The use of an existing instrument wasn't possible because identical research hasn't been conducted previously. Therefore, the creation of the instrument became the third objective of the thesis.

The thesis first result section comprised of descriptive results of the respondents and statistical data of the created instrument. The major problems, pitfalls and uncertainties of the research were revealed in the analysis phase of the instrument. However, after modification and reevaluation, the instrument became applicable in terms of statistical analysis. The principal component analysis of the instrument resulted in a finding that two measurable latent variables, an integrative variable and a distributive variable, can be identified with a group of items assessed to measure these concepts. The group was formed from items (statements) such as forcing, problem-solving and information sharing. In this thesis, these items were operationalized, with

a theory driven approach, in the form of statements measured with 5-point Likert type scale.

The second part of the result section attempted to answer the research questions and hypothesis of the thesis. In overall, the most important findings of the research were, generally speaking, consistent with the previous research and supported the hypothesis of this thesis. For example, the respondents' perception of their own negotiation strategy was characterized as more integrative than distributive. Not surprisingly, the previous research has indicated that, in most cases, the integrative negotiation strategy is a better alternative than the distributive negotiation strategy.

In line with the previous research, the respondents of this research experienced a buyer's high offer scenario with a loss frame and low offer scenario with a gain frame. However, in terms of counteroffer strategies the thesis resulted in a contradictory descriptive finding because, in both high and low offer scenarios, the majority of respondents perceived an extreme counteroffer as their preferred strategy. This suggests that they would use explicitly or implicitly a distributive strategy in all of the counteroffer situations. Based on theory and previous research results, this would lead to inferior payoffs compared to an integrative counteroffer strategy. This finding, which was based on the descriptive analysis, doesn't support the previous theory and the theoretical extension of this thesis, which argued that an integrative offer will be countered with an integrative offer. In the worst-case scenario, this could mean that offers and value might not be associated with a negotiator's perception of his negotiation strategy and the preferred strategy would be in most cases the distributive strategy. However, the buyer's high offer in the thesis' second scenario was set to 30 % above the respondents' reservation value, which in hindsight could be too low interpretation because the previous research has indicated that the mean merger premiums vary between 30 % and 40 %. This could be one explanation, why the result from high offer scenario is incompatible with the previous research, theory and the theoretical extension of this research.

The most important and statistically significant finding of this research was that a buyer's first offer is associated with a negotiator's perception of his or her own

negotiation strategy. More specifically, the results of the t-test suggest that the first offer had an effect on a negotiator's choice of his or her own negotiation strategy as human perceptions affect their behavior. This finding is not consistent with the descriptive results, but it is consistent with the hypothesis of this thesis. The hypothesis stated that a negotiator's perception concerning his or her own negotiation strategies is not the same in a situation where a buyer presents a first offer, which is either below or above his or her reference value. Based on the t-test the hypothesis can be accepted. In addition, this finding partially supports the theoretical background, as the buyer's second first offer scenario was associated with a more integrative than distributive perception of a negotiation strategy.

Concerning practical contributions, the results of this thesis are useful for communication trainers and negotiation professionals. Moreover, the results contain useful information especially for negotiators of mergers and acquisitions, as they appear to be somewhat unaware of integrative and distributive negotiation strategies. However, when teaching negotiation or negotiating mergers and acquisitions an instructor or a negotiator could pay attention to following practices:

- 1) When negotiating, a negotiator should use more integrative than distributive approach. The integrative approach could consist of behavior, which directs a negotiation towards a problem-solving practice, where information sharing and trust is emphasized.
- 2) In order to enable integrative negotiation process, a negotiator should always place the first offer face to face before the letter of intent phase, but before this the negotiator should carefully analyze the potential reference values of the negotiating parties, create alternatives and evaluate consequences in order to make tradeoffs. The alternatives in the context of mergers and acquisitions could be, for example, creative earn-out models, vendors' notes or adding third parties to the negotiation. However, the negotiator should acknowledge that it is very probable that an integrative offer can be countered with a distributive offer and communication strategy.
- 3) Concerning negotiation goals, the negotiator should have a high level of aspiration, which in this case could be a goal of high merger premium.

6.2 Evaluation of the study

6.2.1 General evaluation

The most notable limitations of this research can be found from the research literature, method and the sample. Previously, there hasn't been conducted exactly similar research, and therefore the comparison of the research results to previous results were limited. Concerning methodological limitations, the response time must be noted, as it was limited to about 15 minutes. This dictated partly the form and length of the questionnaire of the research. The final questionnaire was somewhat shorter in the amount of statements and longer in the length of the statements than planned. Moreover, the content and design of the questionnaire limited the possibilities of descriptive analysis. For example, in the scenarios of the instrument the respondents' counteroffer was selected on behalf of them. It would have been an interesting alternative to let them choose their own counteroffers. However, this choice could have been ethically wrong as it might have revealed the respondents' business secrets when selecting the counteroffers. In addition, this could have further reduced the rate of response or caused unnecessary speculative responses. The sampling method used was a nonprobability sampling because the survey questionnaire was sent to a single organization. This may have affected the skewed distributions and results because the responses were received from negotiators who work in the same organization. Furthermore, the rate of response was low and yielded only a small sample of respondents, which limited the method of analysis.

Conducting this thesis has been a long process. In terms of time, there has been several periods, which have one reason or another interrupted the whole process. Therefore, most parts of this thesis including the literature, have been re-read many times in order to recall what was the idea and the method of the whole thesis. This can be seen both negative and positive, as the long time has deepened the way of thought, but also made remembering details, methods and meanings more complicated.

Despite the time factor, this thesis has firmly followed the general scientific way of conducting empirical research. Therefore, in terms of the process the thesis has been

successful. The population and more precisely the cross-cultural sample of this thesis dictated and justified the method of this research. Therefore, an empirical quantitative method was selected as it, in practice, provided a possibility to conduct the research and enabled the opportunity to provide “objective” and generalizable results. In other words, this method was the only possible way of researching a cross-cultural sample of respondents. The main problem faced with the method was determining the right variables and operationalizing them in the form of statements, so that an instrument, which measures the researched phenomenon could be created. In order to ensure the best possible result, a theory driven approach was used, when the questionnaire was created. Additionally, the variables and communication behaviors behind integrative and distributive negotiation strategies were identified from previous research. This turned out to be a valuable choice because the analysis phase resulted in similar findings compared to previous research.

The data collection phase was more successful than expected. Before sending the survey questionnaire, it was pilot tested with two participants. In overall, the pilot study participants’ feedback indicated that responding to the statements was easy, the questionnaire was well understandable, and the time to completion was “short enough. The data of this thesis was gathered online from a cross-cultural sample of respondents. In hindsight, this was a considerable risk factor as participation was voluntary, and the respondents were very busy professionals. Despite this, about thirty professionals of mergers and acquisitions participated, which was a sufficient amount to perform statistical analysis and t-test. The motivation letter, which requested the participant’s contribution, was sent to the respondents only one time via e-mail. A reminder e-mail could have affected positively to the rate of response, but unfortunately, due to reasons of politeness this mail wasn’t sent. The data, which was received, turned out to be decent and easy to analyze with SPSS 20.0 and Excel. In conclusion, the research process and method were sufficient for this type of research, and it resulted in results, which corresponded to the purpose of this thesis. The most commonly used method to evaluate a research is to evaluate its reliability and validity (See, for example, Metsämuuronen 2011, 74-75). This evaluation is presented in the following chapters.

6.2.2 Reliability

Various methods have been developed to evaluate a measurement error in research. In general, an observed test result can be defined as a sum of a measurement error and a participant's true score. By using the methods of test theory, a researcher can attempt to evaluate how much there is measurement error in a test result, what the range of the test result is, and how the measurement error has effected on the analysis of the test result. (Nummenmaa 2009, 348-349.) The most common ways to evaluate the "quality" of an instrument is to analyze its reliability and validity. This type of analysis is typically used to evaluate the credibility and trustworthiness of the whole research. Reliability means the repeatability of a research, i.e., does an instrument, which measure a certain phenomenon, give similar test results every time. If this is the case, in terms of test theory the instrument has a high reliability. (Bernardi 1994, 768; Field 2009; Nummenmaa 2009, 346-360; Metsämuuronen 2011, 73,125; Rubin et al. 2010, 202-203.) Validity means the property of an instrument, i.e., the instrument's ability to measure what it was designed for to measure and how successfully it measures a certain phenomenon (Field 2009, 11; Nummenmaa 2009, 361; Metsämuuronen 2011, 74-75, Rubin et al. 2010, 202-203).

Reliability is used to assess how much measurement error a test result contains. A reliability multiple assesses how much variation of the observed test scores results from the measured phenomenon. (Nummenmaa 2009, 348-353.) The Internal consistency method was selected to assess the reliability of this research. Internal consistency can be measured with Cronbach's alpha, which basically results in high reliability, if an instrument's items measure the same characteristics in a similar way. On this account, a respondent should score correspondingly with similar items. (Nummenmaa 2009, 356; Metsämuuronen 2011, 76-79). The Cronbach's alphas in this research were for the first version of the scale $\alpha=.68$ with a confidence interval 95% CI [.41, .84], for the first scenario of the second version of the scale, $\alpha = .51$ with a confidence interval 95% CI [.19, .74], and for the second scenario of the second version of the scale $\alpha = .54$ with a confidence interval 95% CI [.23, .75]. In overall, this indicated that the research results consisted of a significant amount of measurement error. However, there are many reasons which affect low Cronbach's alphas, for

example, a low alpha can be explained with a homogeneous sample of respondents (Bernardi 1994, 768-774). This argument is true for this thesis. Even though, the responses were received from the cross-cultural sample of respondents who work in different markets and business cultures, they all represented the same organization and their profession was more or less the same. Therefore, the sample can be characterized as homogenous.

In terms of reliability, this thesis is not consistent with the previous research. For example, De Dreu et al.'s research (2001, 649) which statements' form and content were similar compared to this research, but the research context was different (conflict in negotiation) resulted to high alphas, for example, $\alpha = .86$ for forcing and $\alpha = .81$ for problem-solving. Furthermore, Liu's and Wilson's (2011, 252) research, which used similar statements compared to this research such as: *"I want to find a solution that meets both parties' needs and concerns"* and *"I want to understand what Mr. X's concerns are in the negotiation"* and *"I want to make Mr. X aware that I have opportunities with other companies"* and *"I want to make sure that Mr. X will not achieve his goals by the end of the negotiation"*, resulted to Cronbach's alphas ranging from .73-.86 for all of the respondents (n= 134). Wigley (2011, 283) point out that, although previous research has been able to create reliable instruments, a researcher should not conclude that the previously created instruments are reliable because of reported high alphas. This kind of trust is clearly one of the pitfalls of this research. However, the thesis' low rate of response, which resulted in a sample of 30 participants, can be characterized as one factor which could have an effect on the relatively low alphas.

The length of an instrument can effect on the reliability of the research. For example, Liu's and Wilson's (2011) instrument consisted of 27 statements and was about four times longer than the versions of the scales used in this research. The instrument created for this research was designed as short as possible. This choice was made because the potential respondents were considered as extremely tight scheduled business professionals, who generally don't have much spare time for participating in this kind of research. In addition, some of the statements of this thesis' instrument were combined, and a minimum amount of items was selected in the final instrument.

Even though, the pilot study's respondents reported that they understood the statements, some of them, from the point of view of statistical analysis, could have been too long and complex. This might have had an effect on the reliability. Even though the statements were long, the length of the whole instrument could have been too short, in order to achieve high levels of reliability.

According to Nummenmaa (2009, 358) the Spearman-Brown formula can be used to estimate, how the reliability of an instrument changes, if items are added to or removed from it. Therefore, a Spearman–Brown prediction formula was used to test, if an additional length had improved the reliability of this thesis' instrument. Liu's and Wilson's (2011) instrument was taken as a benchmark and all the versions of this thesis' scales were theoretically extended 3.9 times. The theoretical Cronbach's alpha results for the first version of the scale was $\alpha = .86$, for the first version of the second scale $\alpha = .80$ and for the second version of the second scale $\alpha = .82$. This indicated that the instrument should have been longer in order to obtain higher levels of reliability.

According to Bernard (1994, 767) a low alpha may justify the assumption that a test is defective, which means that a researcher should be cautious when interpreting the results. One of the most recent statements concerning the Cronbach's alpha is that it is not always the best measure of reliability (Wigley 2011, 285). There are several factors, which could have affected to the relatively low alphas of this research. For example, the response rate of this thesis was low possibly due to the fact that responding to this thesis survey wasn't the most important work task among the sample of over 300 negotiators. Furthermore, the participation deadline was only two weeks, which might have affected the low rate of response. Those respondents who participated in this thesis, possibly participated, because they were interested about the subject and had enough extra time to participate. By extending the time of participation and reinforcing the participants during a potential extended period, would have possibly increased the rate of response. However, it would have been extremely difficult to receive more than 100 responses within a reasonable time frame. It is worth pointing out that due to the small group of participants, an individual response had a great effect (one respondent's score was about 3 % of all the scores) on the results and the reliability of this research. Although the response rate was low and the sample size

small, it was sufficient enough for statistical analysis. Therefore, in order to evaluate if this thesis instrument was reliable or not, the research should be redone with a larger sample, for example, from 200 to 2 000 respondents. In conclusion, the reliability of this thesis was acceptable for this kind of research, and the Spearman–Brown test indicated that, with longer questionnaire, the reliability would have been high.

6.2.3 Validity

Validity indicates how precisely a measured phenomenon is manifested in a respondent's true score and observed result (Nummenmaa 2009, 361). In other words, validity means the instrument's ability to measure what it was designed for to measure (Field 2009, 11; Metsämuuronen 2011, 74-75; Rubin et al. 2010, 202-203). Validity can be divided into internal and external validity. External validity consists of the evaluation how generalizable the results of a research are. Internal validity consists of assessing if the concepts of a study are in accordance with a theory, correctly operationalized and cover the researched phenomenon sufficiently. Furthermore, internal validity can be divided into content validity, construct validity and criterion validity. The validity of a research can be mathematically determined by calculating an instrument's scale's correlation to a criterion variable (Field 2009, 11; Frey et al. 2000, 116-117; Metsämuuronen 2011, 122-131). However, a sufficient criterion was not found because similar research compared to this thesis is not known and found. Therefore, evaluation of criterion validity was excluded from the analysis.

According to Metsämuuronen (2011, 126) internal validity can be evaluated by analyzing, whether the concepts used in research are in accordance with a theory, properly operationalized and sufficient enough to explain the researched phenomenon. Concerning threats to internal validity, the main factors which might have reduced validity of this thesis are the Hawthorne effect and possible errors made during the data analysis phase. The respondents responded to the survey questionnaire online. Therefore, any distractions or interruptions might have had a decreasing effect on the validity and reliability. In addition, the respondents knew that their negotiation behavior is studied, which could have had an effect on their

responses. Moreover, in spite of re-examinations and checks, there could have been human errors in the data analysis and reporting phases, which could have reduced reliability and validity and also resulted in a type II error.

Considering internal validity, all the concepts used in this research were derived from previous research and theory. The most important concepts used were determined precisely and defined by using various sources of research literature. In addition, the whole phenomenon of negotiation in mergers and acquisitions was analyzed and defined carefully based on literature, which was identified from different research domains (mainly communication and finance). The majority of the concepts and the variables used in this thesis have also been used in previous research. The concepts of the research were operationalized in the form of statements assessed to measure integrative and distributive negotiation behaviors, which are the components of integrative and distributive latent variables. The contents of the thesis' questionnaires' statements were very similar compared to previous research. The only difference was that the statements were customized to fit in the context of negotiation in mergers and acquisitions. Therefore, from a theoretical point of view this thesis has a good content validity.

In terms of construct validity, the instrument of this thesis and its versions of the scale turned out to be the weakness of this research, which was already detected in the principal component and reliability analysis. The poorly constructed statements could have effected to errors in responses leading to false distributions. The pilot study which, was made to the instrument before sending it to the respondents, improved the construct validity. Furthermore, the PCA analysis resulted in a finding that some of the items, in fact, formed components of the latent variables as these items correlated with each other. This indicated that the created instrument at least some level measured the phenomenon it was designed to measure. This finding improved the construct validity in the analysis phase, as several items were discarded before further analysis of the sum variables. In addition, the results of this thesis suggested that the hypothesis of the thesis can be accepted. This means that the instrument has some kind of construct validity. Therefore, from the validity point of view, the instrument

seems to be valid but some unknown reason, perhaps the length or complexity of the instrument or the number of respondents reduced its reliability.

External validity consists of the evaluation of generalizability of the research results. There are three reasons why this thesis research results can't be generalized. Firstly, a nonprobability sampling method was used to gather a sample from the population of the negotiators of mergers and acquisitions, which means that the results are not generalizable outside this group. Secondly, even though Frey et al. (2000, 125) argue that the most important characteristic of a sample is not its size when evaluating the validity, the sample size of this thesis can be considered as too small. Thirdly, the reliability of the research was too low in order to generalize the results. However, the standard error of the sample mean was very small, which suggests that this thesis' sample is an accurate reflection of the entire population of the negotiators of mergers and acquisitions. In addition, the sample consisted of "real-life" professionals of negotiation. Furthermore, the effect size, which doesn't account for the sample size and can be used as a comparison between different studies, was in this research large. In conclusion, the research results of this thesis are not generalizable, but can be with caution presented as indicative results.

6.2.4 Directions for future research

Negotiation is a popular, multidisciplinary and extensively researched subject among the scientific community, which has a relatively long research tradition. To name a few, research domains such as communication, economics, conflict management and dispute resolution have produced various theoretical explanations of this phenomenon. However, based on this research there seems to be a research gap between communication strategies of negotiation and offer strategies of negotiation. One reason, which might explain this problem, is that communication research has been oriented towards the research of negotiation skills and negotiation training. This thesis attempted to research the association between perceptions of negotiation strategies and first offers. However, the research results were not sufficient to explain this phenomenon. Based on this research, there are various opportunities how to take

the next research step. Firstly, the same research should be repeated with an improved questionnaire and a larger sample. The second option is to accept the thesis' indicative results and continue the research by comparing the perceptions of buyers and sellers. In this case, the professional population of buyers could consist of private equity professionals. The third alternative is to research the phenomenon with a qualitative method, which could be, for example, an observation of an actual negotiation situation of mergers and acquisitions. This could provide a deeper understanding of interaction and human behavior in the offer-making situation. Fourthly, a case study of a large acquisition negotiation could provide valuable information of communication and offers in negotiation. The final proposition of further research is to establish a multidisciplinary research group that tries to develop further the theories, which have been presented in this thesis.

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APPENDIX

APPENDIX 1 Instrument

Welcome to the questionnaire concerning Your perceptions about M&A negotiation. This questionnaire has four short sections. When answering, please think of a typical sell-side M&A negotiation that you have recently encountered.

Section1/4 INSTRUCTIONS: This section contains general background information, please choose a response that fits best

Q1/4 Sex

1. Male
2. Female

Q2/4 Age

3. less than 35 years
4. 35-45 years
5. 46-55 years
6. 56-60 years
7. more than 60 years

Q3/4 Location of your firm's office

8. EMEA
9. AMERICAS
10. ASIA-PACIFIC

Q4/4 Before a typical price negotiation I prepare for

11. 0-15 hours
12. 16-25 hours
13. 26-35 hours
14. 36-45 hours
15. over 45 hours

Section 2/4 INSTRUCTIONS: This section consists of statements about M&A negotiation. When answering, please think of a typical sell side M&A negotiation that you have recently encountered. The way of answering to every question is similar. Please choose the answer that best fits your perception. Think of the questionnaire's "buyer" as a typical buyer candidate.

1/19 Before a negotiation, I try to invent as many alternatives to reaching an agreement as I can

16. Strongly Disagree
17. Disagree
18. Neutral
19. Agree
20. Strongly agree

2/19 I strive whenever possible towards a fifty-fifty solution

21. Strongly Disagree
22. Disagree
23. Neutral
24. Agree
25. Strongly agree

3/19 I aim to find out, what are the main concerns and priorities of a buyer

- 26. Strongly Disagree
- 27. Disagree
- 28. Neutral
- 29. Agree
- 30. Strongly agree

4/19 I try to make sure that the buyer will not achieve his/her goals by the end of the negotiation

- 31. Strongly Disagree
- 32. Disagree
- 33. Neutral
- 34. Agree
- 35. Strongly agree

5/19 I feel that best offers include both threats and promises (e.g. I promise you A, if you don't accept, I will reduce my B)

- 36. Strongly Disagree
- 37. Disagree
- 38. Neutral
- 39. Agree
- 40. Strongly agree

6/19 If the buyer doesn't accept my terms a good strategy is to bluff and say that I will end the negotiation

- 41. Strongly Disagree
- 42. Disagree
- 43. Neutral
- 44. Agree
- 45. Strongly agree

7/19 I will reveal important information about the target company to a buyer only if I receive in exchange important information

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

8/19 Although I disagree about an issue, I try accept the buyer's point of view, but not his/her offer

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

9/19 My aim is to make fewer concessions than the buyer

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

10/19 I try to use logrolling* and multi item offers in order to create tradeoffs

(*logrolling = concessions on low priority issues in exchange for gains on higher priority issues)

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

11/19 I try to make sure that my arguments support my position against the buyer's demands

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

12/19 I aim to tell the buyer, what are my first priorities and understand what are her/his first priorities

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

13/19 I offer concessions to the buyer in order to maintain good atmosphere

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

14/19 I believe often that the buyer is trying to mislead me

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

15/19 I try to make the buyer aware of the fact that I have opportunities with other buyers

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

16/19 I aim to find a solution that meets both parties' needs and concerns

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

17/19 I trust the buyer

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

18/19 My first offer is high but reasonable as I try to exchange further offers and concessions with the buyer

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

PROBLEM_SOLVING_3

19/19 In disagreements I try to suggest creative offers which combine a variety of viewpoints

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

Section 3/4 INSTRUCTIONS: In the following section please assume that price is the only factor which affects the outcome of an M&A negotiation. In order to respond to the following statements please read the following starting point:

You are representing a seller in an M&A negotiation where a typical buyer makes a first purchase price offer. You have determined, before the negotiation, that the firm minimum price which enables you to sell the Company A is 100 million US\$. The buyer is not aware of this. The buyer's first offer is 70 million US\$. Please

1/7 I propose of working together with the buyer and try to blend my ideas with the buyer's offer in order to create new alternatives and reach to the best solution for both parties

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

2/7 I am pleased with the buyer's first offer of 70 million US\$

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

3/7 My counteroffer will be as high as possible and certainly more than 100 million

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

4/7 It is likely that will accept the buyer's offer of 70 million US\$ and make the deal

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

5/7 I believe that the buyer is trying to mislead me with the offer

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

6/7 When I respond, I try to offer trade-offs in order to reach solutions in this situation

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

7/7 The buyer's offer (70 million US\$) is not reasonable but I don't immediately reject it because I try to find a solution that meets both parties' needs and concerns and therefore additional information needs to be exchanged

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

Final section 4/4 INSTRUCTIONS: In the following section please assume that price is the only factor which affects the outcome of an M&A negotiation. In order to respond to the following statements please read the following starting point:

You are representing a seller in an M&A negotiation where a typical buyer makes a first purchase price offer. You have determined, before the negotiation, that the firm minimum price which enables you to sell the Company A is 100 million US\$. The buyer is not aware of this. The buyer's first offer is 130 million US\$. Please

1/7 I propose of working together with the buyer and try to blend my ideas with the buyer's offer in order to create new alternatives and reach to the best solution for both parties

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

2/7 I am pleased with the buyer's first offer of 130 million US\$

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

3/7 My counteroffer will be as high as possible and certainly more than 130 million

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

4/7 It is likely that I will accept the buyer's offer (of 130 million US\$) and make the deal

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

5/7 I think the buyer is not trying to mislead me

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

6/7 When I respond to the buyer's offer, I try to offer trade-offs in order to reach solutions in this situation

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree

7/7 The buyer's offer of (130 million US\$) is reasonable but I don't immediately accept it because I try to find a solution that meets both parties' needs and concerns and therefore additional information needs to be exchanged

1. Strongly Disagree
2. Disagree
3. Neutral
4. Agree
5. Strongly agree