Understanding the balance of power and ethics in a bank-customer negotiation

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UNDERSTANDING THE BALANCE OF POWER AND ETHICS IN A BANK – CUSTOMER NEGOTIATION

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Abstract

In a highly competitive context with low interest rates and a low level of trust in the institutions from the customer's perspective, the current advice is to profit from the change in this balance of power to negotiate or re-negotiate with banks that are desperate to find new and profitable customers.

However negotiation is a complex activity and beyond the usual recipes for success research has tried to understand the key variables and the mechanisms that lead to specific outcomes.

The notion of power, its sources and the balance or asymmetry that establishes itself before and during the process is not the only expression of an adjustment between offer and demand. There are many other elements that must be considered before any attempt to engage.

Our intention in this paper is to present aspects of the conceptual framework regarding power and negotiation and to provide eventually some recommendations regarding this new context of bank-customer relationship.

Keywords: Negotiation, power, banks, customers, relationship.
After a period marked by failures and recession, banks are looking for ways to attract disillusioned customers in a competition context which requires differentiation. According to David Rani (2010) most of the institutions are looking for customers that can use a full range of services and are not simply taking advantage of the latest promotion whilst remaining loyal to their usual bank for the rest.

Most of these promotions come with intentions to extend the relationship and customers who are disenchanted might be interested in switching to a better offer. This new relationship, starting with deposit or saving accounts, is now pushing most of the institutions to offer higher interest or even cash back for opening new accounts. Deposit accounts are a way of attracting and retaining customers, as described by Silver-Greenberg and Pilon (2011), for a more profitable relationship in the long term.

The case of Metro Bank, the first new bank to set up recently in the UK for more than one hundred years shows that sometimes the alternative on the market isn't about better rates or financial incentives, but about a higher level of service. According to Goff (2010), most of the banks in Europe and the USA are attempting to restore their reputation by putting customer satisfaction at the heart of their business and are returning to the old-fashioned model of having personal bank managers rather than call centres.

Apparently, for consumers, it might be the right time to change as the market offers more opportunities to obtain very competitive rates or a better service. Even if most of the clients are quite reluctant to switch to a rival for many practical reasons, this specific context of post financial crisis and also the fact that trust in this profession has considerably reduced, make them re-examine their relationship in a more demanding manner. The image of a banker evaluating risk in a very logical and rational manner has given way to someone willing to take foolish positions on financial markets for short term profitability.

As a consequence, many bank customers are now considering the connection with their usual banker, and even more with a new one, in terms of negotiation with a much more favourable balance of power.

But power doesn't come only because of favourable context or circumstances, and before getting to negotiate with a banker it might be useful to clarify what power means, what are the sources of it or even if this interaction is a genuine negotiation.

**Defining negotiation**

Negotiation has been considered for a long period as an activity quite impossible to study therefore to learn; it was described as an art with a clear distinction between talented and non-gifted practitioners. While it was recognised as the most intelligent way to solve conflicts, it was dedicated to diplomacy and international relationships. The activity that most of the people were practising in order to exchange resources was called bargaining and considered to be less noble. Bargaining is still used but describes only a part of the process and essentially implies competition.

As explained by Dupont (1996), research contributions may assist the negotiator. A global view of the process might help to understand the effects and influence of key variables on the determination of the outcome. This knowledge could enhance the negotiator's capacity in terms of planning and development of the process.

As with many concepts, there are different angles and ways of defining negotiation. The following definition presents three essential aspects of any negotiation: the idea of a specific process, the presence of conflicting aspects, and the finality involving the participants.

"Negotiation is a joint decision-making process through which negotiating parties accommodate their conflicting interests into a mutually acceptable settlement" (Faure and Sjöstedt, 1993).
Negotiation, therefore, takes place when the following points are present:

- Two or more parties with conflicting interests
- A common need for agreement because of an expected gain
- An initially undefined outcome
- Means of communication between the parties
- A control and decision making on each side

This voluntary process involves different actors with different interests or goals and different attitudes and strategies leading to a situation where people are trying to adjust these differences in order to reach an agreement. The willingness to find a solution despite the divergence regarding the decision implies that negotiators must carefully fix their objectives with certain flexibility.

Each party in the relationship must cooperate to reach his or her objective and each party can block the other one from attaining his or her goal (Putnam, 1990). This interdependence sets up a mixed-motive relationship in which both parties cooperate by competing for divergent ends (Putnam, 1992). During the process participants can become adversaries or partners due to the quality of the relation, the nature of the conflicting issues, of information exchanged but also because of behaviours, attitudes and perceptions.

One of the key aspects of negotiation is the presence of both conflicting and cooperative aspects. The negotiators have to find the right balance between these two poles in order to attain a mutually acceptable solution. These two poles refer to what is called "distributive and integrative" dimensions.

**Distributive and Integrative Dimensions**

Distributive refers to the division and distribution of a specific "pie" considered as the outcome of the negotiation process, for which each participant is fighting over the largest part. It is a win-lose situation or a zero sum game where everything earned by one of the parties is lost by the other. Everybody wants to maximize his share of the resources which are somehow limited or fixed.

Negotiation is understood as a competition where opposition is quasi-permanent and each participant seen as an opponent or enemy in a conflicting context.

Walton and McKersie (1965) call this type of negotiation "distributive bargaining" and they define it as a "construct referring to the complex system of activities instrumental to the attainment of one party's goals when they are in basic conflict with those of the other party". To them, this type of negotiation is "bargaining" in the strictest sense of the word.

On the opposite side is the integrative dimension, in which negotiators are not only concerned with their own objectives but are also interested in the other party's interests and aspirations. Also called "cooperative" or "collaborative", this kind of negotiation sees both parties trying to maximize the joint outcome, assuming that the size of the "pie" can be increased if the participants collaborate.

The situation here is a win-win type or a positive (non zero) sum game. The negotiators seek solutions which can benefit either party, or at least when the gains of one party do not represent an equal loss or sacrifice by the other.

Integrative bargaining, as named by Walton and McKersie refers to "the system of activities which is instrumental to the attainment of objectives which are not in fundamental conflict with those of the other party and which therefore can be integrated to some degree".

More than a pure conflict resolution, it supposes a "problem solving approach" where the participants consider negotiation as a process to find a solution to a common problem which is beneficial and acceptable for both sides. They look for a jointly optimal outcome.
Understanding the process through this dichotomy seems unreal as, in practice, negotiation is always a mix of cooperation and competition. As shown by Lax and Sebenius (1986), any negotiation includes both "value creating" (integrative) and "value claiming” (distributive) features. The interdependence between these two poles creates a dilemma for the negotiator in his decision making process.

For Walton and Mc Kersie (1992) dilemmas arise because the tactical requirements of one sub process (i.e. distributive bargaining) are opposite to those of the other sub process (i.e. integrative bargaining); managing the dilemma between these two sub processes present a central challenge to negotiators.

These dilemmas consist in fixing the objectives, deciding on the level of cooperation, honesty and trust but also on the ways and means and toughness. Zartman (2005) makes several propositions in order to solve the toughness dilemma depending on the initial orientation or strategy of the other's party, the structure of negotiation and the asymmetry of power, the analysis of the process or the tactics used. These propositions sometimes incompatible are at least descriptive of the situations that a negotiator can encounter, but barely prescriptive in the sense that each negotiator has supposedly a free will in the interaction and cannot always be predictable.

Mc Call and Carrington (1989) provide a solution in dividing the process of negotiation in three sub processes or three stages during the face to face interaction. The first one is a phase of distributive bargaining where the parties are concerned with establishing the negotiation range of possibilities by taking up their extreme positions in relation to the issues about which they are in conflict. This initial stage is used in order to test the limits and the behaviour of the opponent before committing to a particular stance.

This leads to the second stage which constitutes a period of problem solving due to the fact that both parties maintain a high level of aspirations. The third stage consists in an exploration of the possible settlement points with a view to agreement.

Since negotiators in the process are evolving from competition to cooperation and reverse, they reveal in the interaction the relative power that they have over the acceptance from the other party of options or decisions. But the power position is never definitely fixed as one of the characteristics of negotiation is to make it shift during the course of the arguments used.

**Power and sources of power**

A first approach regarding power in negotiations may consider resources that permit a party to punish or reward another one for its behaviour. For Zartman (1991) power can come also from elements that determine the vulnerability of the other party to such punishments or rewards.

Lewicki et al (2001) assume that power in negotiation must not be considered as absolute and coercive even if it is mostly a capacity to influence or the ability to bring about outcomes that are desired. They prefer to separate the power revealed in negotiations from the influence processes used in interpersonal relations.

In that sense they join the relational definition of power given by Deutsch (1973) who emphasises the specificities of each situation. The power of an actor in a given situation (contingency approach) can be evaluated as the "degree that he can satisfy the purposes that he is attempting to fulfil". Therefore power depends also on the relationship rather than purely on the resources of each participant. The characteristics of the situation as well as the characteristics of the participants determine the balance or the asymmetry of power.

According to Deutsch (1973), some elements of power derive from the situation or the context instead of being only attributes of each actor. As he suggests there is a clear distinction between the "environmental power", the "relationship power" and the "personal power".
French and Raven (1959) were the first to identify and introduce five different bases of power that a person can exert over another one:

- **Reward power** refers to the capacity to provide others with things they desire or value. The strength of the power that one person will have on another will increase with the importance of the reward perceived. It depends also on the ability to remove or to reduce negative consequences or effects.
- **Coercive power** which consists of the capacity to force someone to do something and to administer sanctions, punishments or even to take away advantages. It is based on someone's failure to conform to the expectations and influence of the other party. These two sources of power are pretty similar in the sense that one can be considered as positive with the use of promises and the other negative, drawing mostly on the use of threats.
- **Legitimate power** refers to the capacity to impose a sense of obligation due to a role, a status. The notion of legitimacy implies codes, standards accepted by individuals enabling someone with a specific status to assert his power. It is influenced by many origins like cultural values, social structure, and importance of hierarchy.....
- **Expert power** is based on knowledge and skills and is the capacity to provide another with needed or expected information. It depends on someone's perception of the extent of knowledge of the individual considered as an expert in a specific domain. Therefore it is appreciated in relation to the personal knowledge of the one who is submitted to this power as well as a general and absolute standard.
- **Referent power** is the ability to provide others with feelings of acceptance, approval, based on their desire of identification, their admiration, their attraction to your traits, characteristics and qualities and willingness to establish or maintain a relationship.

Boulding (1999), considering that power is the ability to get what we want, divides it in three major categories from the point of view of its consequences: destructive power, productive power and integrative power. The last one has a destructive and productive aspect depending on the relationship and its origin.

As shown by Dupont (1996) the strength of a negotiator may be derived from a number of sources either situational or connected with the negotiator.

Dupont describes four "objective" factors:

- **Latitude of Choice**
- **Capacity to sanction** (positively or negatively)
- **Importance of the opponent** (Level of dependency)
- **Latitude regarding time**

These factors are linked to the situation and the specific context in which negotiation takes place even if it depends on the control or flexibility of each participant.

To these sources Dupont adds four other more personal factors:

- **Skills** (Agile mind, Resistance to stress, Flexibility but also toughness....)
- **Credibility and reputation**
- **Capacity to influence** (A mix of skills and capacity to use proper means in order to succeed)
- **Information**

Expertise (specific knowledge), experience and competence are present as a combination of some. For example, expertise can be considered as based on knowledge (information) with effects on credibility (and reputation) leading to a capacity to influence.

Experience will enhance some skills (drive to communicate) while contributing to build up reputation and increase knowledge (information). Competence will be a capacity of using
information together with skills and reputation in order to convince or lead to a specific agreement.
Information here can be considered in several different manners.
First it can relate to a specific context, situation or object of negotiation. Information can also be about the stakes and interests or constraints of your counterpart and eventually about knowledge, level of education and expertise.
The hypothesis that having information about another person can be a source of power in interpersonal interactions has recently been tested by Baldwin et al (2009), in addition they tried to explore the link between expectations over someone as a source of information and interpersonal power. They demonstrate that having knowledge about an interaction partner leads to increased feelings of interpersonal power and that expectations provide individuals with information often seen as useful in the interaction.

For Fischer (1999), during negotiation, people communicate in order to influence the other's decision. This influence is possible because of a negotiating power which depends upon the other's perception of this strength. The influence of the negotiator depends upon the combination of different factors that Fischer classifies in six categories:

- The power of skills and knowledge
- The power of a good relationship
- The power to a good alternative
- The power of an elegant solution
- The power of legitimacy
- The power of commitment

Under the first category, Fischer considers that apart from the usual skills like the ability to listen, to communicate clearly, to make decisions and the knowledge about procedures, legal aspects or financial issues and even cultural differences, there are three kinds of knowledge that are underestimated: Knowledge about the people involved, knowledge about the interests involved and knowledge about the facts.
For Fischer, it is quite impossible to appreciate the importance of unknown facts but also it is difficult to evaluate some additional interests involved on the other side.
As we will see further, the question of evaluation of interests is quite central to the notion of negotiation.
The power of a good relationship is directly linked to the notion of trust. The power of a negotiator depends upon whether the other participants trust him. Working on a proper relationship in advance can help building trust and provides power over the process. This process being mainly about communication, the second element of a good relationship is the ability to communicate about the conflict of interests without converting your counterpart into an adversary.
The power of an elegant solution comes from the capacity of a negotiator to be creative, to bring ingenious solutions in a mix of shared and conflicting interests.
Legitimacy is linked to objective criteria like authenticity but also fairness. Seeking options that are considered as fair and plausible and avoiding extreme positions can bring credibility and in consequence more power to the negotiator. Here legitimacy is not considered due to a status, a specific role or position but directly related to the nature and quality of arguments used in order to convince.
The power of a good alternative refers to the concept of BATNA (Best Alternative to a Negotiated Agreement) presented in "Getting to yes" (Fischer and Ury, 1991). In his preparation a negotiator must consider all the alternatives to the agreement that he is trying to reach with a specific negotiating partner. By selecting the most promising and trying to improve it he will guarantee a successful outcome.
A negotiation position becomes stronger not only if the alternatives are numerous and if the best alternative provides already a high level of interests but also if the counterpart's BATNA is less interesting.

As shown by Lax and Sebenius (1999), alternatives are subject to change during the negotiation. Furthermore, they may be contingent to a specific situation and also conditional to many sources. The evaluation of the alternatives on both sides is essential but difficult depending on their uncertainty, their capacity to remain stable and their level of dependency to the other negotiator. In addition, the evaluation can be very subjective and depend on perceptions that are rarely shared by both negotiators. On the contrary there is a tendency to over evaluate on each side and negotiators should anticipate an inflated perception of alternatives.

While a good number of alternatives and a proper appreciation of it can reinforce a negotiator's strength it implies limits instead of potential, therefore the risk is to create a negative effect specially if used at an early stage of the negotiation.

Commitment and dependence on the other party

The power of commitment was originally exposed by Shelling (1960) who identifies power with the ability to commit to a position from which your counterpart cannot be expected to withdraw. A commitment functions by restricting the bargaining range in favour of the one who is committing.

Fischer (1999) distinguishes two different kinds of commitment: affirmative and negative.

An affirmative commitment is a decision about what the negotiator is willing to do. It can be considered as an offer. This offer can be formulated in a way that maximizes the impact of the other categories of negotiating power. An affirmative commitment (offer) can be justified by a specific knowledge or expertise or take into account alternatives leading to the best possible offer.

On the other hand a negative commitment is a decision about what the negotiator is not willing to do or accept. It represents the limits of what is negotiable but can be controversial in the sense that it can lead to threats or ultimatum and damage the quality of the relationship.

The level or degree of dependency has an obvious effect on the asymmetry of power in the sense that the more dependent an actor is relative to opponent, the weaker is the negotiation strength (Dupont, 1996). But this dependency has to be considered on two different aspects; The existence and potential of alternatives but also the importance of interests, stakes, objectives or expectations.

Interest, Stakes and asymmetry of power

Interests are considered by Lax and Sebenius (1986) as the element that can measure negotiation. According to them, it is the raw material of negotiations and can take many forms including tangible but also intangible elements. Although negotiators focus on their interests and must take into consideration the other party's interests they have a very narrow conception of it.

Lax and Sebenius make a clear distinction between intrinsic and instrumental interests leading to three misunderstood aspects of negotiation: interests in the process, the relationships and in principles.

Intrinsic interests are independent of any subsequent deals while instrumental interests are influential on following deals or outcomes. The first ones are objective and can be mostly quantified on a short term basis while the other ones are more long-term oriented and can be totally subjective.
Both can be present in the three aspects mentioned before: even if negotiators evaluate agreements by measuring the value obtained from the outcome, the way the negotiation process was carried might have an importance as well. The relationship brings intrinsic interests because of the trust established between the parties but sometimes they may find no instrumental interest in keeping the relationship. Finally, negotiators can share or develop common values or norms that can provide immediate or future effects. Leroux (1992) talks about instrumental or fundamental stakes; the visible, material, tangible part (instrumental) made up mostly of economical aspects is sometimes less important than the invisible one (fundamental) which refers to notions like self esteem, status or reputation. As Dupont (1996) shows, there is a clear link between interests and stakes. Every negotiation implies expectations, objectives, interests, consequences (positive or negative), risks, probabilities (chances). The stake of the negotiation is the impact of the outcome on the interests, tangible or intangible ones.

No wonder the power position is never totally balanced. Not only do the participants count on resources that they possess which are of interest to their opponent, but also they have different expectations regarding the interests provided by these resources. Because all the sources of power are unequally distributed and can have immediate or lasting effects, the negotiators are confronted to a balance of power that reveals mainly during the process, placing the interaction as the most difficult phase to manage.

The difficult task of establishing a good relationship with your banker

Whilst banks try to put the emphasis on a good relationship with their clients, they create a difficult situation for the people that are in charge of this relationship. As shown by Gill et al (2006), the confidence of the bank's clients is based on the belief that the manager is taking actions on their behalf and in their interest. But these bank employees are also dependant on the nature and number of products or services purchased by the clients. The more they use the full range the better for the bank in terms of profitability and the more the clients will be reluctant to move to another institution.

What will be the impact of "person-related" service characteristics compared to the "offer-related" ones in the development of trust in this specific context?

At an early stage of the relationship banks must fulfil the client's needs by providing the best response to their expectations. Personal related attributes, according to the authors, are only secondary and will gain importance and relevance in the steady state periods. For Gatfaoui (2007), banks are now facing a constant mistrust from their clients; they become more suspicious about how the institutions are using money and for what purpose. At the same time there is also a tendency of being client of several banks for different reasons and products or facilities. Gatfaoui shows that the mechanisms creating trust between clients and the bank can be different considering the institution or the contact within it.

For the institution, aspects like reputation, size, history and performances will bring more credibility and finally trust, concerning the interpersonal relation which is the most important factor the perception is always asymmetrical. Clients are in need of a trustful relationship especially when it comes to saving accounts or investments whilst the banker is more considering risk and potential.

For Gatfaoui, the systematical change of bank managers or contacts has a devastating effect on the level of trust. The arrival of a new person in charge of your account(s) corresponds usually with reconsideration to some extent of the partnership and the necessity to adopt new services or products.
In the 1990's Customer Relationship Management was fashionable and many organisations have tried to use it, especially through computer programs enabling a profitable and lasting relationship through a dedicated and precise management of information. As shown by Billé and Sopamot (2006) with the case of Société Générale, these systems have created a frustration from customers who were looking for someone to trust instead of someone who has access to a lot of information treated in the most rational way pretending to know and understand their customers.

**In conclusion: Considering the negotiation with your banker**

After taking into account all these fundamental elements about negotiation and the sources of power, many questions can arise when considering negotiating with your usual banker or a new one.

Will it be a real negotiation? (In the sense that there are options, choices and alternatives)
Who has mostly the power?
Will it be a distributive or integrative relationship?
What is at stake or what could be the intangible interests that will force the decision?
What are the alternatives and the chances to succeed?
Who is engaged in the negotiation process and who is taking decisions?
How to prepare and what should be known?

Preparation is for many practitioners the key word in negotiation.

Clarifying the object and the limits of the negotiation, fixing objectives, evaluating stakes and interests, understanding which elements from the context have an influence and can be controlled, knowing your counterpart and the parties that can influence the decision, estimating the asymmetry of power and the nature of it, deciding on a strategy and the appropriate techniques and tactics….The list of things to do is long but necessary.

From all these aspects, the evaluation of power is crucial. It will influence your self-confidence, your strategy, your expectations and also your chances of succeeding in the defence and realisation of your interests. But not only is power never consistent, it is contingent to a specific context or situation and even if your starting level is high it doesn't guarantee the fulfilment of your expectations.

From all the sources of power described previously, some seem to be more appropriate in the interaction with a banker.

In a market that is sometimes becoming compulsive and short term oriented, latitude regarding time might be the proper answer to the pressure of opportunities that can't be missed but reveals more marketing values than profitability. On the contrary, sometimes your situation requires immediate or urgent decisions that will reverse this power.

As with many professions, bank activity relies on a very technical dimension with a specific knowledge and many codes and rules. Some expertise in this field might be a good way of balancing this expert power. Nowadays, a lot of information is accessible helping to control the legitimacy and relevance of assertions and propositions from your banker. As a result it can help to reduce the influence of his knowledge and your perception of it.

Access to information helps also compare quickly and easily on a specific market.
For that reason, opportunities may appear to vigilant customers but typically they use this information in order to put pressure on their own banker or to express dissatisfaction.
Evaluating your level of dependency as well as the accessible alternatives might transform a situation that is mostly considered as monopolistic. Usually, the longer you stay with your banker the less are the chances of switching to another institution because of the cost and inconveniences compared to the advantages. People are generally more interested in their...
personal contact within the bank than in the institution itself, considering that all are delivering the same offers and services.
But what is at stake for your contact is difficult to evaluate especially if the intangible side of interests must be satisfied in a short term perspective (intrinsic). Your counterpart might lead you to a specific option that doesn't really suit your interests but will provide him with some satisfaction regarding the challenge.
The power of a good relationship based on trust and an unquestionable history of relations could help you being more demanding unless your package of products and services is already delivering the maximum possible. Shifting to another bank reduces this power, while putting a doubt on the real reasons of a sudden change.
The power of commitment might be the proper answer in that case. By offering a specific potential straight away, you oblige your counterpart to deliver his best offer.
But the margins of manoeuvre of your counterpart in a bank are sometimes quite reduced, meaning that not everything is negotiable and that a considerable demonstration of power based on the actual competition in the market, the amplitude of alternatives and products and your willingness to obtain a better service might be confronted to a very limited number of possibilities.
This could be the answer to the question: Is it a real negotiation?
If we look at the key elements as described previously, the interdependency of both actors is certain but the level of it depends mainly on the context, the nature of the divergence or convergence.
While there are many interests at stake, after all money is quite a serious subject, the conflict of interest that unites (or divides) you and the bank in the negotiation process is very limited. Banks are evolving in a very strict and regulated domain and so the possibilities are constrained.
Before preparing yourself and evaluating your sources of power in a context that is regularly described as profitable for consumers, the remaining question might be: What can we negotiate?

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