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Negotiation as a Function in Supply Chain Transactions

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This scientific study is investigating the economic and success factors of success in negotiation in the world of trade and sale. In addition to the keynotes of the Harvard concept, my study focuses largely on trust and transparency at annual meetings or other meetings held throughout the year, strongly favouring a satisfactory result for both negotiating parties. A conceptual model has been proposed to merge the fundamental principles of the Harvard Negotiation Concept with the finding that trust and transparency in communication is a key factor in terms of economic success experiences and socio - mental satisfaction.

Keywords: *Negotiation and Supply Chain Efficiency, Supply Chain Negotiation Efficiency, Negotiation Theory, Supply Chain Management, Supply Chain Transactions, Negotiation Optimization, Satisfaction, Harvard Negotiation Project*

JEL Classification: *D30, D47, F12, F14, F18, F40, L11, O1, O3, Q00*

1. Introduction

The research question of this study deals with the analysis of direct and indirect factors influencing the interaction and negotiations between procurement and suppliers in the supply chain transactions. On the basis of a conceptual model, it will be reviewed how negotiations between purchasers and sellers should be conducted at an optimal level. For this, the Harvard concept is applied to analyse the derived ideal negotiating situation.

The interaction between procurers and suppliers is analysed specifically in terms of their economic and psychological satisfaction / variables. It is possible to achieve equal economic benefits for all parties involved in the negotiation process. In most negotiations, there is a winning part and a losing one, at the end of the negotiations. The aim of this paper is to look at the current situation and draw conclusions in order to improve relations and cooperation among all parties involved. If the 'fronts' between 'the procurement side' and 'the supply side' could be resolved and convert these 'hostile stand-offs' into mutually beneficial cooperation through more trust and transparency, it would help the entire cycle.

Subject of this research is the scrutiny and analysis of annual and negotiating trade talks between procurement and suppliers in the supply chain transactions. Here, the creation of a model is proposed which investigates empirically, both the economic and especially the psychosocial factors of success in negotiation processes between buyers (procurers) and suppliers (producers) in the world of trade and sale.

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In particular, the paper examines the economic and mental satisfaction in the decision-making and in the negotiation processes for efficient negotiations in the supply chain transactions. This research explores how transparency in negotiations and at annual meetings (or even in between annual negotiations) can achieve a satisfactory and efficient result for both negotiating parties.

Evaluation of the procurement market and sources of supply in view of the new approach, direct and indirect influences on the transparency during negotiations and the effects of the current shortage rate. Procurement policies and practices of today will not work in the future. There are already shortages and in consequence drastic cutbacks in purchasing volumes.

2. Current Situation for Trading Companies

Trading companies have begun to notice changes in the efficiency of negotiation process in supply chain transactions and have, thus, set out targets (Volker, 1988, 2013):

- Demands of trade companies with regard to the supply chain are as follows: product prices must drop, quantities (or: output) must increase in the following year.
- The reality in trade, however, shows that individual (or: single) product quantities have remained stagnant and have only grown as regards product range, while prices keep steadily rising due to increasing, direct and indirect stringency.
- Decade-long and familiar patterns have become outmoded.
- Stress scenarios affecting all parties involved in negotiations and annual appraisal meetings have become a regular feature, in consequence.
- Familiar culture of conversation has changed or rather must change, and common set of goals must be the natural consequence, so as to ensure the utmost satisfaction of all parties concerned.
- There are no instruments or tools for future-oriented negotiations, or that is to say they are still in a developing phase and the data generated is usually past-oriented or present-oriented.

It is for these reasons that the author of this article has been posing the question what the future of trade in general and procurement of food products in particular is going to be like, or rather how suppliers and sales staff are going to co-operate and which areas still leave room for improvement.

Co-operation between trade and consumers manifests itself in the sales market which strongly revolves around marketing and strategic brand management. Co-operation between trade (wholesale and retail) and suppliers is strongly rooted in the decision-making process. For these aspects, the following questions arise: Which products are to be marketed and sold and are they worth ordering? If so, at what prices and quality and in what quantity?

At this point we are addressing the doctrine of efficiency in negotiation theories, the focal points that this paper is centred on. For these aspects, it is important to ask: What are the procurement procedures among the various structures and organisations like, and what can be done in an effort to improve and optimize these interactive processes between wholesalers and suppliers, producers, middlemen and other trade partners? Also, how can we secure efficient and sustainable long-term supplies in the future?

3. Negotiation Model and the Harvard Negotiation Project

Negotiating is a form of mutual communication with the objective of achieving a result that combines the common and opposing interests of all parties concerned. The demand for negotiations is growing in line with the growing number (or: steady increase) of conflicts (hot spots), since more and more people want to have a say in today's burning issues, and also because of the fact that decisions arrived at by bargaining individuals are no longer just accepted like that by a large majority without readiness to compromise from the powerful players. Skillful handling of the negotiations is therefore an effective tool to keep negotiating fair and on track before any decisions are reached or irreparable damage is done, thus preventing clashes, disputes and conflicts of interest.

The negotiating parties fairly often tend to fall into a rut and end up "haggling over" issues, stubbornly adopting and maintaining an uncompromising position/attitude, from which there is "no way out" and once a stalemate like that is reached, the outcome of the negotiations often remains uncertain and unresolved. Very unfortunate though, this lapsing into a status quo by defending one's own position and only allowing room for very minor manoeuvres is the most common form of negotiating today.

Haggling over positions involves a certain risk since each negotiating party will be trying to impose their opinion at all cost, inevitably resulting in anger and resentment, often causing far-reaching consequences beyond the respective negotiations, leaving "a bitter taste". If one works/starts from the

assumption that besides the two negotiating parties there are additional parties involved, or so-called covert parties, i.e. committees, superiors/line managers, who take part in the negotiations too, one can imagine that reaching a mutual compromise would not be easy.

In order to understand these trading complexities and the treatises, we first need to address the topic of decision-making and negotiation theory, as well as the topic of organizational theory, since there are so many players and activities involved in trading that it is necessary to break these complex processes down into their concise, situation-specific basic principles, so for that, we consider the Harvard Negotiation Project for analysis.

Procurement principally entails the economic maxim of supply and demand – it is simply “put a give and take” situation. The idea behind the Harvard Negotiation Project as a method of substantive negotiations is the consideration, how the bargaining parties can share and exchange information, privately, cooperatively, professionally, politically and in many other areas of interest, and further how they can share differing views without getting into heated arguments. Negotiating is an omnipresent activity in commerce and business, something companies do to get something they need or want from another entity. Substantive negotiations are tough on the subject but lenient on the negotiator, as this ensures fair conduct towards the negotiating counterpart or counterparts, yet also safeguards against those who would/might take advantage of the leniency and exploit it for their benefit. The authors of the Harvard Concept have divided the negotiating process based on three criteria (Fisher et al., 2013, p.26):

1. Negotiate, if at all possible, with the objective of reaching a reasonable agreement in the end.
2. The agreement reached should be efficient.
3. The agreement reached should result in an improvement for all parties concerned.

As developed and designed by the founders and research scientists and academics, the Harvard Concept is subdivided into methodology, in general, and the strategic objectives based on four principles (Fisher et al., 2013, p.43). Due to the complex diversity of statements and multiple approaches in the Harvard Concept, this study will subsequently try to arrange the core issues of the Harvard Concept in clearly defined major subject areas (thematic blocks), for the purpose of further empirical studies (Stelzer, 2016). Seven sets of statements have been identified based on which the seven most expressive contents have been regrouped. These groupings have been termed “K-groups”, whereby “K” is short for “Kriterium“. The German terminology has been chosen intentionally since the interviews and surveys have been carried out in German speaking areas/countries and the commentary for the questionnaires has therefore been attached thereto in German. The Harvard Concept has therefore been divided into seven individually named K-Groups.

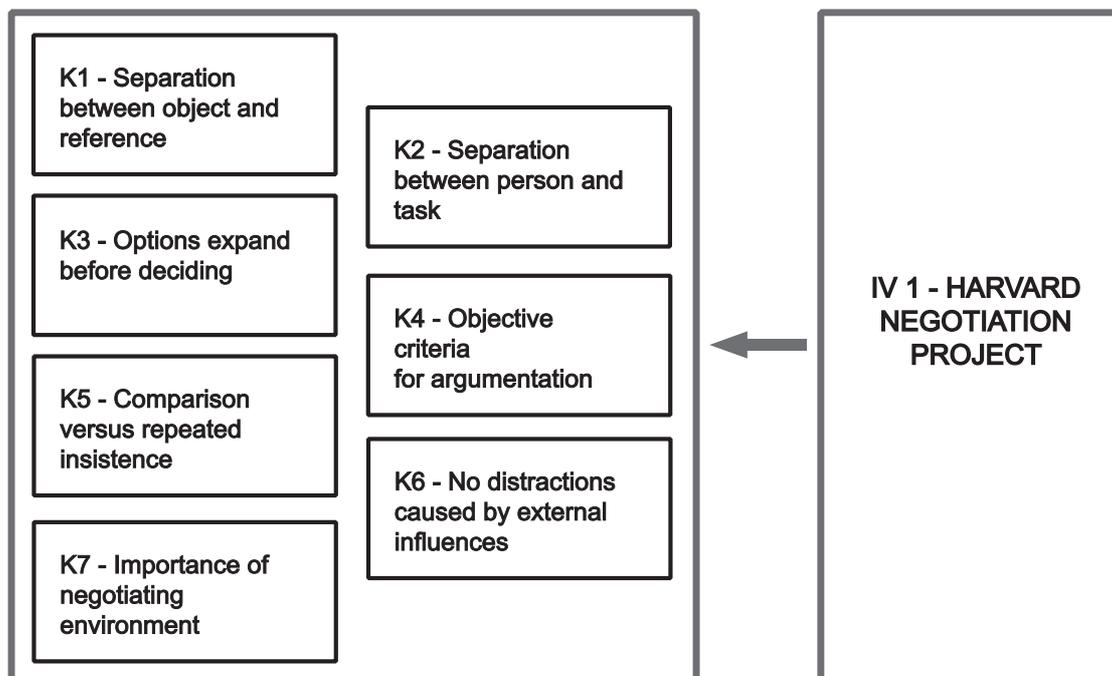


Figure 1. The 7 K-Groups of the Harvard Concept
Source: Proposed by the Author

These groupings have further been used in the empirical study of this research project for the purpose of exploring the importance of the principles of the Harvard Concept.

Further illustrated will be the precise scientific research question per K-Group, in order to explain the contents of each individual K-Group.

K1 – Separation between object and reference: *How important is it to you to separate between the subject of negotiations and your relationship or degree of familiarity to the negotiating partner?*

K2 – Separation between person and task: *How important is it to you to separate between the individual/person in your negotiating counterpart and the task/assignment to be pursued in the negotiations?*

K3 – Options expand before decision-making: *How important is it to you to develop and weigh all your possible options before making a decision?*

K4 – Objective criteria for argumentation: *How important is it to you to develop and present objective criteria to back up your position (substantiate and strengthen your arguments)?*

K5 – Comparison versus repeated insistence: *How strongly do you feel about reaching a compromise that meets most of your demands versus reaching a satisfactory decision that meets all your expectations and demands by broaching the subject again and allowing ample patience and time to revisit all propositions on the agenda?*

K6 – No distractions caused by external influences: *How important is it to you that your counterpart actively and attentively listens during the negotiations and does not get distracted by external influences?*

K7 – Importance of negotiating environment: *How strongly do you feel about the ambience of the setting in which the negotiations take place?*

4. Model Testing

This study further examines and illustrates the synergies among single individuals and it also explores how and what common interests meet, if single individuals attempt to reach a compromise and further elaborate on the question as to when a compromise reached may actually be adopted and positively received and accepted by all parties involved. Is there such a thing as a positive compromise and if so when can we talk of one? At this point we obviously have to ask all the same if there is such a thing as a negative compromise and if so, when or in what situation are we faced with a negative compromise? Also, how does a compromise affects the individual parties, and is everyone equally affected or is there such a thing perhaps as a single/individual compromise? However, in order to understand the question about reaching a settlement, the article will now present an introduction to the model, a scientific model that can be applied in researching the queries and aspects raised in this study (Weiber and Mühlhaus, 2010).

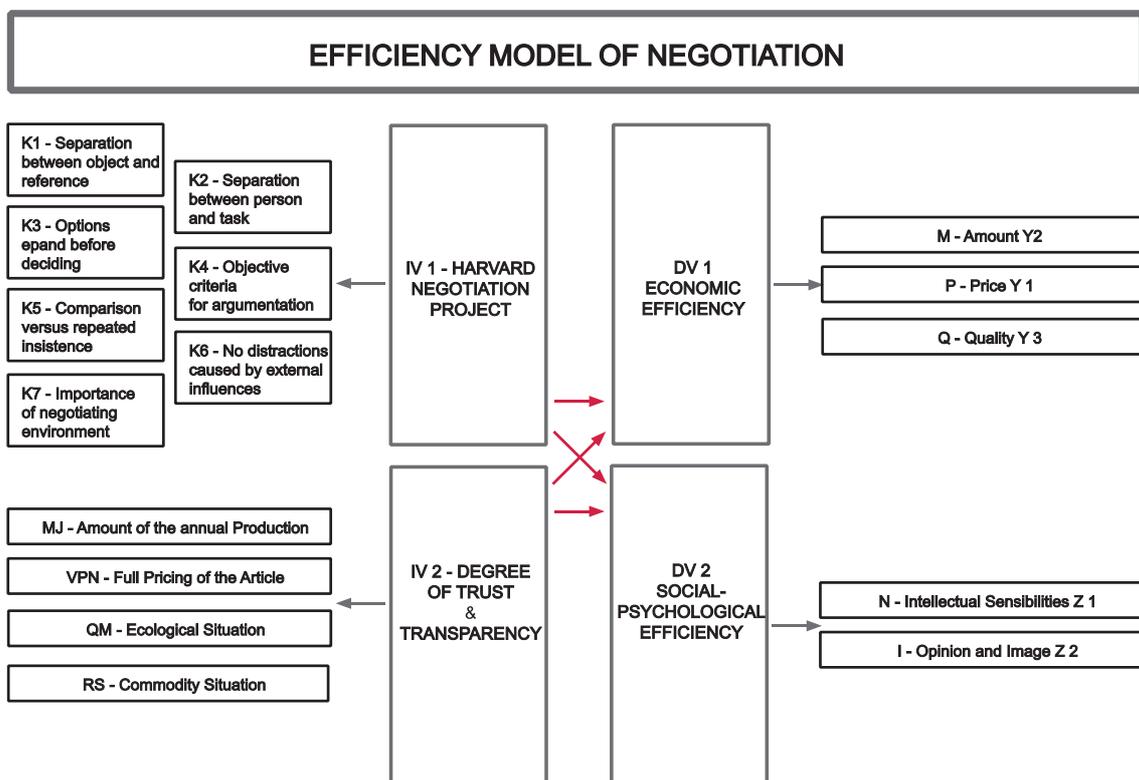


Figure 2. Efficiency Model of Negotiation
Source: Proposed by the Author

Vollmar and Becker (2013) proposed the following ideas:

„There’s renewed need for mutual trust. The major question that begs to be answered is: where should it come from? At this point, in particular, the importance of economic science truly becomes evident. It is the responsibility of economic science to develop credible explanatory models for existing problems, as well as a new overview, one that is capable of restoring trust in the economic mechanisms to ensure that people will, in their own best interest, feel remotivated to do business again which will in turn give fresh impetus to the macroeconomic dynamics.

At present, no solutions have been found as yet, and it will probably require a fair amount of effort of being willing to ‘forgive and forget’, before renewed confidence and trust can be built. Nonetheless, we should not allow ourselves to be discouraged. All it takes in the long run is trust and confidence in the sustainability of human creativity and the ability for continuous renewal. Already Alois Schumpeter realized that there are good reasons to believe that this is quite possible: We are no closer to exhausting the endless possibilities today than we were during the Stone Age.”

As can be seen from previous sentences, synergies among people in structures and organisations have been addressed. Various forms of common decision-making have also been dealt with in detail, what is left to be addressed is the topic of “trust and transparency”, which basically covers and explains the ideal scenario of mutual cooperation. That way the theoretical background has been created against which we can now focus on the approach, since all previously covered topics are reflected in this paper.

5. Model Interpretation

Prof. Schnedlitz, Professor for Trade and Marketing, as stated in the sequel to the “Yearbook of Retail and Trade Research”, predicts the future of trade will imply focusing specifically on the retail and wholesale food trade in Austria, which sets the standards for the developments in German speaking markets elsewhere, since Austria can respond more swiftly to changing trends due to its relatively small area and federal structure (Schnedlitz, 2015).

Fierce, cut-throat competition in Austria remains reduced to just a handful of players in the industry. Trade is a business model that only function through growth and expansion. Takeovers or expansions of a business chain usually runs into three-digit million sums or more. Only a few large corporations can afford expansions or takeovers in such dimensions.

To that, it must be added the annual costs for expansion and the immense expenditure for personnel and all that in view of profits that only move within a single-digit percentage range. In summary, it must therefore be noted that this kind of market is strongly dominated by a handful of corporate giants, who have ended up reducing their profit margins to a negligibly bare minimum, all in the name of fierce pricing competition and undercutting each other through massive sales campaigns (Schnedlitz, 2015).

This form of market competition has already been scientifically researched, documented and published years ago and it still applies to Austria equally as it still applies to Germany. Volker (2013) proposed the following ideas:

„If you want to be dismissed as naive and ignorant, you only need to deny or question the competition prevalent in business/trade. However, there is no risk that any serious and credible scientist, leading representative of a Chamber of Trade and Commerce or other economic union or a politician would even go as far as making a bizarre claim like that. There is unanimous opinion on the following statement: we cannot complain about lack of competition in trade, however double-edged such a general statement may be. It is rather the speculative boom and the excessive side of competition in its ruthlessly fierce race against one another that dominate the current debate (“abusive business practices”). Naming and shaming is the name of the game! Entrepreneurs from small and medium scale businesses, both in industry and trade, are busy “shaming” each other in the name of “shameless” competition, “predatory cut-throat competition”, sometimes even leading to the most destructive business rivalry targeted at the elimination of the competition”.

There have been numerous examples of such destructive business eliminations both in Austria and in Germany over recent years, where smaller stakeholders have either been taken over, entirely ‘swallowed’ or driven out of the market.

In 2015, one long-standing traditional trading company was dealt such a devastating blow. The business went into liquidation, disappeared from the market for good and almost took down its mother company (Schnedlitz, 2015). However, over the past couple of decades consumers experienced a continuous decline of product prices over the years which makes it very difficult now to accept new pricing structures (Berekoven, 1990).

Developments in the pricing of goods have also come under the scrutiny of the competition authority

that regularly imposes harsh penalties on corporate offenders. However, prices will have to rise or else the economy will end up in serious viability problems due to the rising commodity and raw material prices in the regional, national and global procurement markets. The relations between the procurement side and the supply side will not enter a “recovery phase”; on the contrary pressure and tension are likely to increase (Zentes, 2012).

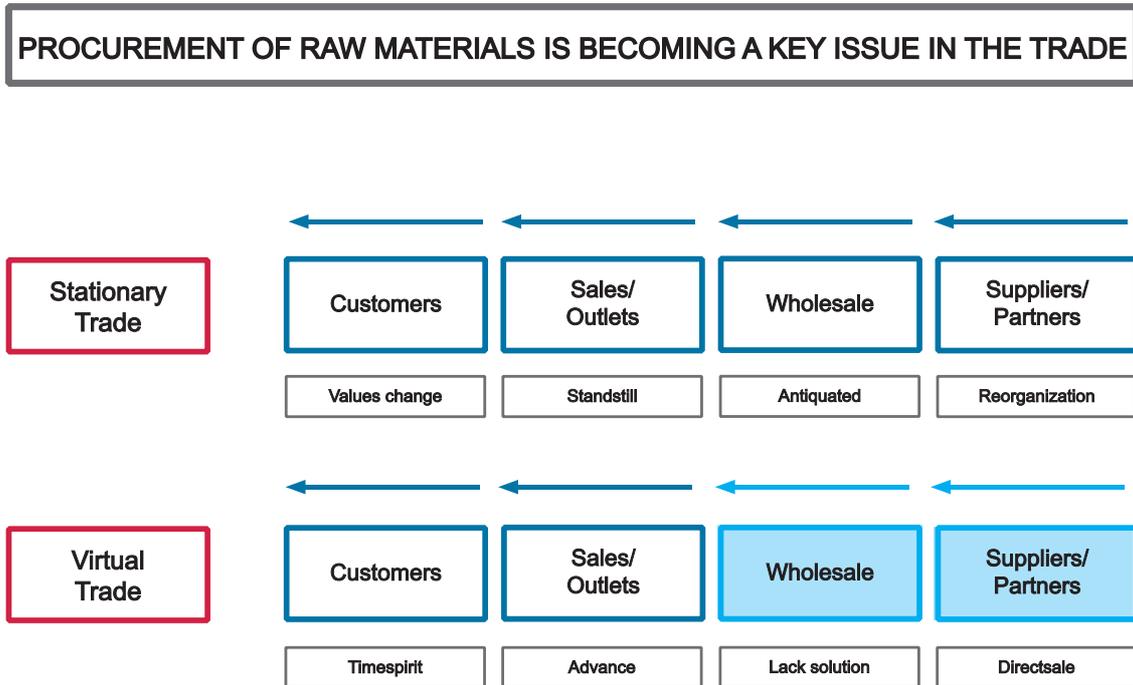


Figure 3. Procurement of Raw Materials is becoming a Key Issue in the Trade
 Source: Proposed by the Author

The interactions between purchasers, suppliers and producers with respect to the procurement of raw materials, goods and products are examined specifically in terms of their economic and psychological satisfaction. Thus, this article proposed an extension of the Harvard concept by adding Trust and transparency.

The periodic negotiations between procurement and commercial trade have been examined very closely, and have further been differentiated according to their respective decision making patterns and their efficiencies. However, focuses in particular on the aspect and fact, what number of efficiencies can be determined and differentiated as a result of different forms of negotiations.

The behavioural patterns of arriving at a decision are being measured, however, they are not analysed or substantiated based on their motives (Landauer, 1996). The decisions should be analysed and evaluated in their finality, decisions the negotiators have eventually arrived at, as they are, an indepth analysis about the actual motives behind the decisions arrived at is not within our scope (Wolf, 2010).

6. Conclusions and Recommendations

The procurement market needs more knowledge and tools for both the procurement and the allocation of goods, for a common and transparent review, as well as analysis tools with regard to the future procurement situation. Total transparency of prices, quantities, etc. must be ensured in an approach to meet everyone’s interests and expectations and thus consequently raise the economic and mental satisfaction of all parties.

If we could resolve the “fronts” between purchasers, suppliers and producers and instead promote co-operation through improved transparency during the negotiating process, this would help the entire cycle, as proposed in Figure 4. This scientific study has resulted in an extension of the Harvard concept by adding Trust and transparency as additional key factors for economic and mental satisfaction for all negotiating parties.

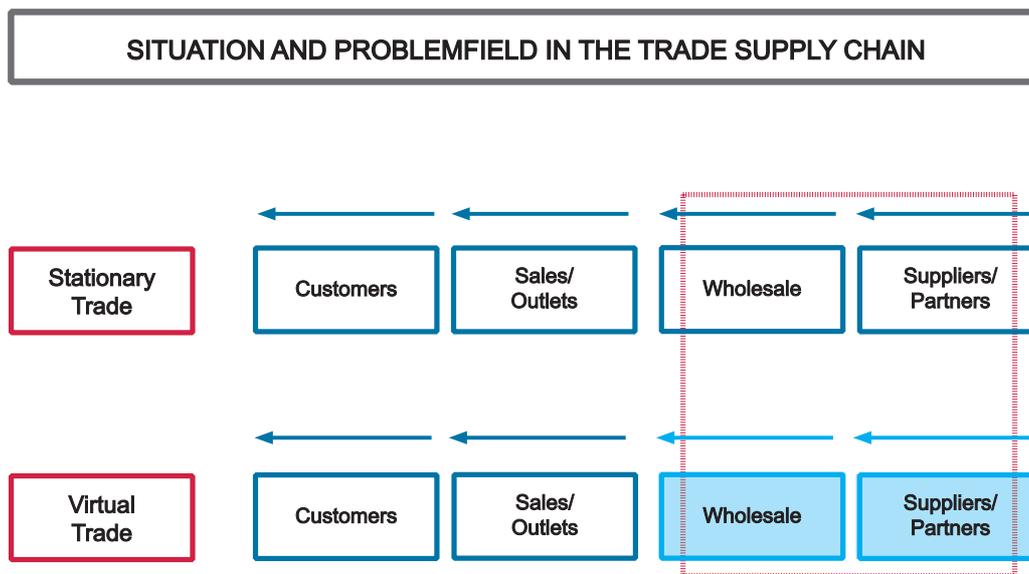


Figure 4. Situation and Problem field in the Trade Supply Chain
Source: Proposed by the Author

Full transparency applied in an open and fair discussion unarguably has a positive impact on the conduct and outcome of negotiations in respect to the economic satisfaction through contentedness with price, quantity, quality, as well as the psychological satisfaction with regard to anxiety, tension and degree of satisfaction. Total trust and transparency of prices, quantities, etc. must be ensured in an approach to meet everyone's interests and expectations and thus consequently raise the economic and mental satisfaction of all parties.

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