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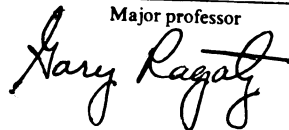
Thomas S. Atkin

has been accepted towards fulfillment  
of the requirements for

Ph.D. degree in Marketing & Supply Chain Management

Gary Ragatz

Major professor



Date 7/25/01

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**THE IMPACT OF NEGOTIATION STRATEGY ON  
CUSTOMER-SUPPLIER RELATIONSHIPS**

**By**

**Thomas S. Atkin**

**A DISSERTATION**

**Submitted to  
Michigan State University  
in partial fulfillment of the requirements  
for the degree of**

**DOCTOR OF PHILOSOPHY**

**Department of Marketing and Supply Chain Management**

**2001**



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## **ABSTRACT**

### **THE IMPACT OF NEGOTIATION STRATEGY ON CUSTOMER-SUPPLIER RELATIONSHIPS**

By

Thomas S. Atkin

This research sets forth an investigation of the negotiation process and its impact on the relationships between organizations. In particular, it seeks to examine the effects that negotiation strategies such as coercion and contract formality have upon outcomes such as satisfaction. A model of negotiation behavior is offered to better explain and predict the negotiation process as it contributes to the establishment of relationships between organizations.

The hypothesized model is also tested across a variety of relationship categories that exist between suppliers and customers. Data were collected by surveying undergraduate students at a large midwestern university while they participated in a negotiation simulation. A total of 264 cases were used in the analysis.

Following preliminary data analysis, regression and structural equation modeling (SEM) were used to assess construct validity and test the model's hypotheses. Results demonstrated that there is a significant negative effect of coercive negotiation strategy on satisfaction. The results also show that the magnitude of this effect can vary according to the type of relationship the parties have developed.

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## **ACKNOWLEDGEMENTS**

I am pleased to have an opportunity to thank those people who have been instrumental in helping me to successfully attain this long-awaited goal. First and foremost, I would thank my family and particularly my parents, Ken and Jane Atkin, for supporting me and encouraging me throughout this process. Being able to exchange stories with my brother Chuck and his wife Sandi has been invaluable. My sister Penny and brother David also offered help and encouragement.

At Michigan State, I would like to thank my fine colleagues who shared the workload and made the experience an enjoyable one. Early in the process, Professors Jim Eckert and Tom Goldsby offered excellent advice. In addition, I would like to thank Rosanna Garcia and the Pine Street Gang for teaming up with me at work and at play. My running buddy Hutch also helped to relieve the stress as we logged mile after mile on the Red Cedar trail.

I would also like to thank my dissertation committee members: Dr. Lloyd Rinehart, Dr. Gary Ragatz, Dr. Ted Stank, and Dr. Tom Page. I must particularly thank Dr. Rinehart who also served as my primary advisor throughout the program. His willingness to devote his time to extensive discussions and provide feedback was truly exceptional.

Many individuals have been influential over the course of the dissertation process and have contributed to its completion. The entire program has been a terrific challenge that was enhanced by the support of these colleagues and friends.

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## 1.1 Introduction

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## **CHAPTER 1: EXECUTIVE SUMMARY OF THE DISSERTATION**

### **1.1 Introduction**

Over the past decade, global competitive pressures on manufacturers have forced them to produce more technically advanced products at ever higher levels of quality, at lower cost and in shorter lead times. The business environment continues to pressure firms through shrinking technology and product life cycles, increasing demands from customers, and further pressure from investors. To address these pressures, many manufacturers have focused their in-house activities on their core competencies and have tended to outsource increasing amounts of non-core products and services (Prahalad and Hamel 1990).

Corporate responses to this competitive environment have caused a dramatic increase in outsourcing. Many manufacturers are spending 50% to 70% of cost of goods sold on purchased items and these figures may soon balloon to 70% to 90% (Fawcett and Magnan 2000). Innovative managers worldwide are experimenting with a myriad of approaches to make relationships with their business suppliers and customers more productive and enduring (Cannon and Perreault 1999). This increased activity has magnified customer's dependence on suppliers and changed the ways these players interact. Due to these factors, the study of customer-supplier relationships has been the subject of many articles over the past several years (Achrol 1997; Johnson 1999; Brown et al. 2000; Houston and Johnson 2000). The issue of customer-supplier relationships emerged from the purchasing function, whose role in corporate strategy is rooted in part



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in the field of marketing (Dowlatshahi 1999). Marketing and purchasing both involve developing and maintaining relationships with external firms.

A distinct movement away from traditional adversarial arms' length customer-supplier relationships and toward more cooperative interorganizational relationships has been noted in the purchasing literature (Monczka et al. 1993). In the channels literature, authors have noted that closer customer-supplier relationships provide many technical, financial, and strategic advantages over spot market transactions and vertical integration (Mohr and Spekman 1994; Gulati 1995). Customers are engaged in a battle to form and maintain successful relationships with the best suppliers (Meier et al. 1998). These suppliers are important because they provide a majority of inputs to a firm's production or service processes.

An emerging topic in the supply chain management area is the management and maintenance of long-term relationships. A gap in the literature that warrants investigation involves the impact of negotiation strategy on the subsequent development of the relationship. The process by which transactions are negotiated can lead to satisfaction or dissatisfaction with the relationship on the part of the supplier or the customer. Firms are actively seeking to adopt programs that promise to develop closer relationships in order to achieve lower product costs, reduced time-to-market, improved quality, advanced technology, and improved service and delivery. One such relationship management tool that warrants more attention is the negotiation process. Negotiation also provides an excellent vantage point for examining interorganizational relationships

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because its rich tradition addresses important antecedent conditions, communication, and power structures affecting exchange partners who must divide benefits and burdens, resolve conflicts, plan, and exercise power (Dwyer et al. 1987).

**The key question is “How does the negotiation process impact the subsequent development of the customer-supplier relationship?”** From a supply chain management viewpoint, a successful relationship strategy will result in both parties feeling satisfied and thereby encouraged to engage in a long-term relationship. Negotiation can be examined as a management mechanism that allows both parties to benefit from the experience and move toward a stronger relationship. The outcome of any negotiation is dependent both on the nature of the conflict problem and the type of strategy used to solve that problem (Lewicki and Litterer 1985). Although the success of a cooperative relationship depends largely on how the parties develop the relationship over time, negotiation of the initial agreement is critical in setting the stage for subsequent development of the exchange relationship (Rognes 1995). Furthermore, firms may exhibit a greater willingness to engage in strategic initiatives involving transaction specific investments and supplier development based on their experience during negotiations.

### **1.1.1 The Research Objective**

The introduction highlights the general question that this dissertation seeks to answer.

Stated more formally, the fundamental research objective of this dissertation is:

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**To gain an understanding of the elements of the negotiation process and their impact on the subsequent development of the customer-supplier relationship, including the type of relationship established and degree of satisfaction achieved.**

The primary goal of this research is to contribute to cumulative knowledge generated within the area of interorganizational relationships. None of the research to date has utilized all of the constructs appearing in this model in this manner. In addition, the effects will be examined in the context of the full spectrum of precisely defined relationships. This dissertation will integrate recent research on the range of customer-supplier relationships and their elements with a variety of negotiation strategies to create hypotheses pertaining to the success of relationship building efforts. It will also investigate the nature of the influence of negotiator predispositions on negotiation strategy development. This will help answer the call that “more must be done to study what Arndt has called contractual and structural negotiations” (Dwyer et al. 1987). In a similar vein, researchers have expressed a need to rectify the lack of empirical research pertaining to how buyer purchasing performance is affected by the organizational form of the vendor interface (Noordeweir et al. 1990).

In addition to the theoretical contribution, the model will be of use to relationship managers as a tool to help decide what type of negotiation activity will be useful and how it may affect the overall relationship. An example would be a supply chain manager who

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would like to strengthen the bonds with a supplier. This theory would allow the manager to analyze the current situation and to implement the appropriate negotiation strategy to accomplish that goal. This research will provide a starting point for managers who wish to actively work with suppliers in order to achieve beneficial outcomes.

The current business environment finds many firms engaged in business-to-business relationships that are not being optimized from a supply chain perspective. This means that there is a managerial need for guidance on how to best accomplish relationship goals. The negotiation process model will contribute to developing successful customer-supplier relationships and provide a foundation for applicable managerial prescriptions in this area.

### **1.1.2 The Organization of the Dissertation**

The dissertation is built upon a foundation of existing theory. First, a general review of the related literature is presented. Then, the research questions are discussed and hypotheses are proposed. Next the research plan is outlined and then the results of the research are considered. In the paragraphs below, the specific chapters are briefly highlighted.

*Chapter One.* As this chapter continues, the specific research questions, and the model that represents the proposed answers to those questions will be presented. An executive



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*Chapter Two.* The literature that provided the background and direct theoretical support for the relationships proposed in the model will be fully reviewed. The research model and the relevant constructs will also be presented in this chapter.

*Chapter Three.* The plan used to execute the research is outlined in this chapter. Special attention is paid to the measurement of each of the constructs presented in the model. A theoretical argument will be built as the hypotheses are presented. Finally, the intended statistical evaluations will be reviewed.

*Chapter Four.* This chapter reviews the collection of the data and the basic condition of that data. Descriptive statistics will be presented for all interval variables as well as frequencies for the categorical variables. Consideration is given to the adequacy of the data for the planned theory test provided by establishing the reliability and validity of the data. This chapter also reports the results of the statistical analysis of the hypotheses.

*Chapter Five.* The final chapter considers the implications of the research. The theoretical, as well as the managerial conclusions are reviewed. In addition, the limitations and directions for future research are documented.

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When the reader has concluded reading this dissertation they should be left with a richer understanding of the concept of the negotiation process and its influence within the context of exchange relationships.

## **1.2 The Research Questions**

There are two sets of research questions that this dissertation seeks to answer. The core focus is to investigate the antecedents to the development of a negotiation strategy and how the implementation of that strategy impacts the satisfaction of the parties. The antecedents will include both the environment surrounding the customer-supplier relationship and the predispositions of the relationship managers. Hypotheses will relate these factors to the negotiating strategy embarked upon. Then the question of how the negotiation strategy utilized affects the ultimate satisfaction that the parties gain from the negotiation is considered. Thus, both the antecedents and the consequences of the negotiation implementation are investigated. This area of investigation forms the main thrust of the dissertation and will be represented in the basic model.

The second set of questions focuses upon on the variation in the size of the effects of negotiation strategy on satisfaction due to the type of relationship established. This will require the explication of a typology of relationships and the presentation of a method for establishing the relationship type based on the elements of that relationship. Successful supply chain management requires the effective and efficient management of the negotiation process in order to develop and maintain the type of relationship desired. An

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explicit map of the elements of the relationships is a prerequisite for making these types of comparisons. The analysis will then test whether the strategy implemented contributes to the dynamic improvement of the relationship. This portion of the research will be interesting to investigate but it is not fundamental to the basic model.

### **1.3 The Conceptual Basis of the Model**

#### **1.3.1 A Brief Introduction to Customer-Supplier Relationships**

Researchers interested in the broad topic of marketing channels began to adapt a behavioral orientation in the late 1960's (i.e. Stern 1969). Since that time marketing has become more relationship focused and the distribution channel has been viewed as a set of behavioral relationships involving power, conflict and relational norms. Webster considers this shift to be a fundamental change in marketing management and theory and predicts that relationships will become a key strategic resource of the firm (Webster 1992). Several authors have found support for the concept that relationship maintenance is a secure competitive strategy as well as a competence that successful firms need to possess (Narus and Anderson 1986; Johnston and Lawrence 1988). Buyers and suppliers have been identified as two of the five forces shaping the competitive nature of industry (Porter 1980).

The *Harvard Business Review* brought the concept of relational exchange to the forefront of business thought in the 1980's. Academics had scarcely addressed this topic and were

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trailing the practitioner journals in writing about relationships at that time. Barbara Bund Jackson's article served to focus interest on the creation and maintenance of relationships when it appeared in the *Harvard Business Review* (Jackson 1985). Additional articles sought to address strategic alliances (Bowersox 1990) and prescribe the steps to attain partnership status (Kanter 1994).

Although the articles appearing in practitioner journals lacked the theoretical rigor necessary to add to theory, they did establish relationships as an area of managerial interest. They reflected the interests and practices occurring in the real world. One problem is that the articles used vaguely defined terms such as partnership and alliance as if they were consensus definitions. There is still a need to identify the specific forms of relationships that exist between suppliers and customers and the attributes that characterize these relationships (Rinehart et al. 2000). This is important because without rigor in conceptual and definitional areas, it becomes impossible to develop meaningful, accumulated theory (Hunt 1991).

### **1.3.2 The Political Economy Paradigm**

A literature review will be presented covering the elements of negotiation and interorganizational relationships as they relate to customer-supplier interactions. The review will include theoretical background on Transaction Cost Analysis and the Political Economy Paradigm in order to provide a foundation for examining the impact of



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negotiation on interorganizational relationships. These paradigms provide the constructs appearing in the model.

In order to make a contribution to the body of knowledge, we must first understand where this dissertation fits in the progression of supply chain management theory as it has developed out of channel research. A brief history of channel research will be presented to position this dissertation in the flow of theory development. Channel research has progressed from early economic based descriptive approaches to the current theory laden status that combines economic and behavioral approaches. Stern and Reve (1980) made an important contribution to the field when they integrated the economic and behavioral perspectives. They proposed the Political Economy Paradigm as a framework that would include elements of both perspectives (Stern and Reve 1980). The Political Economy Paradigm will form the conceptual basis of this dissertation.

The Political Economy approach views a social system as comprising interacting sets of major economic and sociopolitical forces that affect collective behavior and performance. These forces are examined together, not in isolation. The PEP falls within the Organizational Dynamics School of marketing thought and focuses upon the needs of members of the distribution channel (Sheth et al. 1988). This school addresses questions such as:

- What is cooperation in an interorganizational system?
- How does power affect the bargaining process?

Beyond these efforts  
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Beyond these efforts to clarify concepts such as power and cooperation, theorists have endeavored to create general models of interorganizational relations. Robicheaux and Coleman (1994), for instance helped to explicate the PEP by moving beyond the categorical assemblage of variables to place ordered sets of clearly defined variables in a sequential model. Their model of channel relationship structure asserted that PEP variables such as dependence, cooperation and communication jointly determine the relationship structure that is likely to emerge in a particular exchange relationship. This structure, in turn, influences the degree of the various economic and polity outputs of the exchange.

In a similar vein, Graham (1987) has offered a theory to explain the outcomes of negotiations between representatives of buying and selling firms. He proposed that situational constructs (power relationships) and bargainer characteristics (interpersonal orientation, listening skills) influence the implementation of negotiation strategies (use of questions, initial demands, procedural discipline, impression formation, and topical control). Furthermore, the negotiation strategy implemented affects negotiation outcomes such as economic rewards, satisfaction, and interpersonal attraction. The model presented in this dissertation will follow that basic structure of antecedents leading to negotiation interactions that lead to consequent outcomes.

Attention will also be devoted to recent research directed toward establishing more specific definitions of each type of relationship and the characteristics possessed by each

(Rinehart et al.)

category.

#### 1.4 The Model

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#### **1.4 The Model**

The components of the model essentially follow the negotiation process as it unfolds sequentially. It begins with the nature of the negotiation potential inherent in the customer-supplier situation. Negotiation is a process that includes several stages: 1) pre-transaction conditions; 2) pre-interaction preparation; 3) interactions between the parties; and 4) outcomes (Rinehart and Cadotte 1989). As a strategic endeavor, negotiation can become a tool that the firm can use to help coordinate activities of other firms in the supply chain, on whom the target firm may be dependent.

Pre-transaction conditions include elements of the environment that impact the nature of the ensuing negotiations. Dependence plays an essential role in the Political Economy Paradigm and has been found to be a major element contributing to understanding channel interactions (Gundlach and Cadotte 1994). Dependence can be said to exist whenever one actor does not control all of the conditions necessary for the achievement of an action (Pfeffer and Salancik 1978).

The cooperative orientation of a negotiator is another factor that is determined before the negotiation strategy is implemented. Perdue and Summers (1991) used the cooperative orientation of purchasing agents as a construct in their study of negotiation strategies

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Next, the implementation of the negotiation strategy takes place. Two elements of the negotiation implementation will be measured: 1) the level of coercion; and 2) the degree of contract formality.

The final section of the model evaluates the outcome of the negotiation. The outcome will be measured as the degree of satisfaction with the transaction. Generally, high levels of satisfaction have been found to have positive consequences for the relationship and lead to a willingness to increase the amount of dependence existing in the relationship. On the other hand, continued dissatisfaction with achieved rewards, along with the perceived availability of a more desirable exchange partner, will lead to the dissolution of the relationship (Frazier 1983a). Dissatisfaction with an exchange partner may also hinder morale, impede cooperation, or precipitate litigation (Hunt and Nevin 1974). This makes satisfaction a significant criterion for evaluating channel relationships (Dwyer and Oh 1987). Satisfaction is defined as the overall approval of and affect toward another party based on an appraisal of all aspects of firm's working relationship with another firm (Anderson and Narus 1990).



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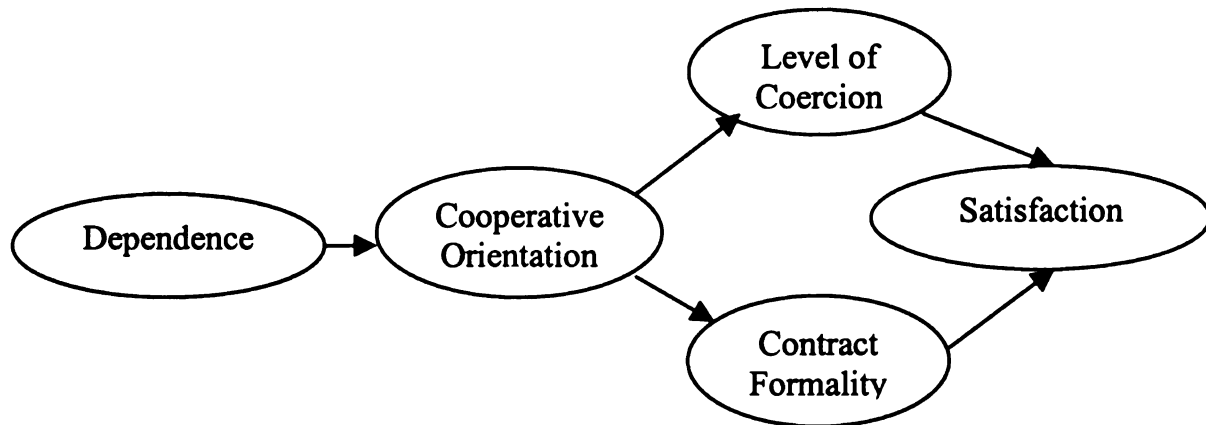
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**Figure 1.1 The Base Model**



### **1.5 Structuring Customer-Supplier Relationships**

A secondary purpose of the dissertation is to examine how the effects in the model may vary depending on the type of relationship established. In order to accomplish this, it is important to work with a relationship classification system that can form the foundation for relevant theory building and managerial action. It is necessary to identify specific forms of interorganizational relationships that exist between buyers and suppliers as well as the attributes that characterize the relationships. This dissertation will utilize a multi-dimensional framework that differentiates relationships based on interorganizational behavioral concepts at the personal and organizational levels (Rinehart et al. 2000).

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between the parties, the level of interaction between the parties, and the commitment of the parties to the relationship as important attributes of the relationship (Dwyer et al. 1987; Frazier et al. 1988; Anderson and Narus 1990; Nishiguchi 1994; Ring and Van deVen 1994; Handy 1995). Specific relationship types have been identified by measuring the constructs of trust, interaction, and commitment (Rinehart et al. 2000).

These relationship types include the following:

1. Non-strategic
2. Administered
3. Contractual
4. Specialty Contract
5. Partnership
6. Joint Venture
7. Alliance

## **1.6 Methods**

The hypotheses were tested in a simulated environment using students as a mechanism to test theory that can be applied in the managerial community. Approximately 150 students at a large midwestern university participated in the study. The participants answered questions prior to a negotiation simulation in order to obtain a baseline of their propensity toward cooperating with the other party and the degree of dependence perceived. Data was then collected after the negotiation strategy had been implemented. The constructs to be measured at that time included the degree of coerciveness and the

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Students are excellent participants in the research because the main concern in this dissertation is to provide theory development. The desire is to provide scientific knowledge about events and relationships that occur in a variety of real-world situations. A representative sample is not required because the goal is to allow a test of theory, not a statistical generalization of the findings. Students are fairly homogeneous on variables that are not central to this study.

The classroom setting provides an area that is relatively free of extraneous sources of variation. This also allows the use of standardized procedures and treatment implementation. Outside variables such as company policy can also be minimized so a more natural response can be elicited. The controlled environment of the classroom allows the variables to be tailored to the abstract theoretical constructs. Thus the theory is tested in a situation where it is possible for the observed effects to contradict the theory. The classroom setting will contribute to the internal validity of the research.

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## **1.7 Conclusion**

Negotiation activities need to be tailored to the nature of the business relationship. This research will help managers determine how to interact with other firms in order to maintain relationships over the long term. The negotiation process is especially important for maintaining relationships and resolving conflict in a single source environment that has removed the market mechanism from these dealings. Showing the connection between negotiation activities and the type of relationship established between firms will make a theoretical contribution to the area of interorganizational relationships.

The purpose of this research is to utilize the negotiation process to better understand customer-supplier relationships. The specific objectives are to:

- To extend the theory of interorganizational relationships.
- To assess the impact of negotiation strategy on relationship development.
- To use the model to develop managerial guidelines that will enable customers to maintain optimal relations with all suppliers.



## 2.1 Introduction

### Chapter Two

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## 2.2 Background

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## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

Chapter Two presents and synthesizes the research streams related to the study. This literature review is laid out in three basic stages:

- 1) A review of the Political Economy Paradigm, which forms the conceptual foundation of the model.
- 2) A review of the literature in the marketing, channels and procurement areas relevant to the constructs found in the model.
- 3) A review of the relevant background in the marketing, channels and procurement areas applicable to the categorization of customer-supplier relationships.

### **2.2 Background Information**

The objectives of this section are to: 1) position the dissertation in the stream of marketing and supply chain management knowledge that has evolved over the years; 2) examine the literature central to the constructs of the model, including the Political Economy Paradigm; and 3) examine the characteristics upon which a relationship typology will be built. This chapter will provide the background information that is necessary to understand the model's constructs and their relationships.

## 2.2.1 Model Overview

In this chapter, the model is presented and its structure basically follows the structure utilized by previous research to lead to negotiation. The listing of the constructs in the model and the constructs is organized into three categories: dependence and satisfaction, coercion and satisfaction. As the party will be perceived as a negotiator in the relationship. The model is presented in the base model.

## 2.2.2 The Fit

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### **2.2.1 Model Overview**

In this chapter, the model presented in Chapter One is fully explicated. The model basically follows the temporal sequence of the negotiation process and reflects the structure utilized by Graham (1987). That structure consists of antecedent constructs that lead to negotiation implementation, which in turn leads to consequent outcomes. A brief listing of the components of the model follows in order to ensure that the positioning of the constructs is clear. Key constructs preceding the negotiation implementation include dependence and cooperativeness. Elements of the negotiation implementation are level of coercion and contract formality. The outcome of the negotiation is captured as satisfaction. As a follow on, a categorization of the relationship type achieved by the party will be performed based on the levels of trust, interaction, and commitment in the relationship. This will set the stage for between-groups comparisons of the effects found in the base model based on the relationship category.

### **2.2.2 The Fit of This Dissertation into the State of Supply Chain Mgmt. Theory**

In order to make a contribution to the body of knowledge, we must first understand where this dissertation fits in the progression of supply chain management theory as it has developed out of channel research. A brief history of channel research will help to position this dissertation in the flow of theory development. Channel research has progressed from early economic based descriptive approaches to the current theory laden

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status that combines economic and behavioral approaches. This will not be an exhaustive history but topics will be introduced that will be expanded upon later.

The Functional and Institutional schools of thought provide the early roots of channel research. After the turn of the last century, the early scholars in the emerging field identified the functions performed by channels (Shaw 1912; Weld 1916; Ryan 1935) and described the institutions that performed these functions (Weld 1916; Converse 1949; Alderson 1954). In 1934, Ralph Breyer recognized that the greatest improvements in marketing would be realized from coordinating the various institutions involved in the marketing process (Breyer 1934). He tracked the costs of a product as it moved through a marketing channel consisting of producers, brokers, wholesalers, retailers, and consumers. He also recognized the negotiatory tasks of marketing in determining the elements of quality, price, and quantity in a transaction.

This early research grew out of economics and retained an economic perspective. Economic variables were utilized to predict channel characteristics such as channel length (Bucklin 1965) and channel structure (Mallen 1973). This train of thought is still apparent in the concepts of transaction cost theory (Williamson 1975; Williamson 1979). These concepts have also been utilized by many recent researchers (e.g. Anderson and Weitz, 1989).

A shift in perspective occurred during the 1960's as scholars began to investigate the behavioral components of channels. Variables such as conflict and cooperation were

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presented (Mallen 1963; Mallen 1967). A turning point was provided by Stern's book of essays concerning behavioral elements of channels (Stern 1969). This shift away from economic analysis focused attention on key topics such as power and conflict. The effect of power on channel control and structure was an early component of this line of research (Hunt and Nevin 1974; Lusch and Brown 1982).

A seminal contribution to the field was made by Stern and Reve (1980) when they integrated the economic and behavioral perspectives. They proposed the Political Economy Paradigm as a framework that would include elements of both perspectives (Stern and Reve 1980). This framework has opened the way for interesting and insightful combinations of variables that broaden channel theory. For instance, Heide and John (1992) combine the economic based concepts of transaction cost analysis (Williamson 1979) with the behavioral constructs of relational contracting (Macneil 1980) to demonstrate that relational norms enable firms to overcome the fear of opportunism and commit to transaction specific assets.

Most recently, channel research has delved into illuminating the variety and type of channel structures being utilized. The starting point was the identification of conventional channels controlled through authoritative power structures. A recent emphasis has focused upon non-hierarchical relationships that are characterized by non-authority based norms of behavior. These are typified by Arndt's concept of domesticated markets (Arndt 1979) as well as more recent relationship oriented channels research by Nevin (1995). Frazier and Antia (1995), however, stress that many actual



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relationships are becoming less relational in nature and consider this an important area for future research. A diversity of channel structures needs to be considered in order to provide widely applicable theory, not just highly relational structures.

Thus, it has become more and more apparent that a diverse array of channel structures (or relationship types) must be considered in order to accurately reflect the nature of the business environment. Some relationships can be classified as relational while others do not possess these attributes. The existence of a portfolio of relationships managed by a given firm helps to cope with the variety of situations encountered. Attention will be devoted to current research directed toward establishing more specific definitions of each type of relationship based upon characteristics anchored in the channels literature. It has become evident that the terms used to describe relationships are often interpreted quite differently by each party to the negotiation. A recently developed classification system will be used to determine the exact relationship characteristics implemented by each party (Rinehart et al. 2000). The full range of relationship types will then be reflected in developing additional hypotheses about the effects found in the model. Thus, this dissertation will fit into extant theory in channels and build upon current trends extending the theory into the supply chain management arena.

### **2.3 The Conceptual Basis of the Model**

Prominent among the theoretical frameworks utilized in analyzing interorganizational relationships is the Political Economy Paradigm (Stern and Reve 1980). The

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constructs appearing in the model are primarily drawn from this framework so a short discussion of it follows.

### **2.3.1 The Political Economy Paradigm (PEP)**

The Political Economy approach views a social system as comprising interacting sets of major economic and sociopolitical forces that affect collective behavior and performance. These forces are examined together, not in isolation. The PEP falls within the organizational dynamics school of marketing thought and focuses upon the needs of members of the distribution channel (Sheth et al. 1988). The organizational dynamics school relies primarily on the behavioral sciences rather than the economic sciences and it takes an interactive perspective with respect to market transactions, in which buyers and sellers are equally important. This school addresses questions such as:

- What is cooperation in an interorganizational system?
- How does power affect the bargaining process?

Bringing socio-political factors into consideration allows theorists to move beyond the constraints of economic theories. Stern asserted that while the literature on channels of distribution had historically tended to emphasize economic interactions, the perspective needed to be broadened to include social and behavioral variables in order to achieve a more thorough understanding (Stern 1969). Early behavioral work by Mallen stressed the interplay of conflict, control, and cooperation in channel member relations (Mallen

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1963). Arndt noted that economic factors alone could not explain marketplace phenomena such as domesticated markets occurring within long-term relationships (Arndt 1979). In such arrangements, transactions are planned and administered instead of being conducted on an ad hoc basis. The transactions are moved inside a group of companies committed to long-term cooperation. These transactions are usually handled by administrative processes on the basis of negotiated rules of exchange. The PEP fills this gap by building upon economic concepts to include the effects of constructs such as power, dependence, commitment, conflict, and trust (Arndt 1983).

The PEP is a fairly general framework that incorporates major economic and sociopolitical constructs into its analysis of marketing relationships. Constructs drawn from social exchange theory, behavioral theory of the firm, and transaction cost economics provide the conceptual bases for the PEP (Arndt 1981; Arndt 1983). It emphasizes the interplay of power, the goals of the power wielders, and the productive economic exchange systems. Stern and Reve were largely responsible for the popularity of this framework by using it in their research on marketing channel dyads (Stern and Reve 1980). A description of the elements contained in the PEP follows.

The basic premise of the framework is that complex socioeconomic interrelations involve multi-lateral interactions as opposed to simple cause and effect mechanisms. There are two major systems in the framework: 1) the internal political economy, which includes the internal structuring and functioning of the distribution channel and 2) the external political economy, which is the environment surrounding a particular distribution

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channel. The internal political economy is further separated into an internal economy (consisting of both internal economic structures and internal economic processes) and an internal polity (consisting of internal polity structures and internal polity processes).

The internal economic structure includes the type of transactional form linking channel members. These arrangements can range from independent firms engaged in market transactions to complete vertical integration. The particular type of relationship that is desired often depends upon economic factors. In this arena, Transaction Cost Analysis (TCA) provided essential inspiration for the PEP and many of its tenets are integrated into the PEP (Arndt 1983). TCA recognizes that transactions have costs in addition to product costs and views the firm as a governance structure (Coase 1937). Williamson (1975) expanded on this topic in his book "Markets and Hierarchies." He views firms and markets to be alternative governance structures that differ in their transaction costs (costs of running the system) (Williamson 1975). TCA has moved beyond considering only markets and hierarchies to include hybrid forms of interorganizational ties. These hybrid forms of governance include long-term relationships, partnerships, and alliances (Williamson 1996).

Strategic planning for the firm incorporates management of such interorganizational relationships (Porter 1980; Frazier 1983a; Stern and El-Ansary 1993). Transaction cost analysis offers a method of evaluating relative advantages of the different internal and external organization forms for handling transactions. Transaction costs are economized



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Operating alongside the internal economic structure of a channel are economic processes. The internal economic processes refer to the nature of the decision mechanisms employed to determine the terms of trade among the members. Agreement on the terms of trade may be reached by routine procedures, by bargaining, or via centralized planning (Stern and Reve 1980). They assert that the transactional form of the channel typically determines the types of economic processes used by firms. Competitive mechanisms are dominant in market transactions and centralized planning is dominant in hierarchical transactions. For transactions that fall between the two structural extremes, the allocation of many marketing activities is largely determined through bargaining among the parties.

The internal polity of the channel is also broken into structures and processes. The internal polity structure is defined by the initial pattern of power/dependence relations that exists among channel members. This is reflective of Emerson's (1962) view of power relationships as the inverse of the existing dependency relationships between firms. There will always be some power existing in channels due to mutual dependencies that exist among channel members, even though that power may be very low (El-Ansary and Stern 1972). The limiting cases of dependence range from minimal power to completely centralized power. Because of the numerous marketing flows that tie channel members together, the most common case is a mixed power situation where different

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The internal polity processes are described in terms of the dominant sentiments that characterize the interactions between channel members. Two major dimensions in channel analysis are cooperation and conflict. Channels cannot exist without a minimum level of cooperation among the parties. Cooperation can be represented as “joint striving towards an object, the process of coalescing with others for a good, goal, or value of mutual benefit” (Stern 1971). Conflict is the other major dimension of the internal polity processes and is characterized by mutual interference or blocking behavior.

The external economy and the external polity represent the environment in which the channel operates. The external economy includes the economic task environment of the marketing channel described by the nature of its vertical and horizontal markets. The external polity concerns the distribution and use of power resources among factors outside the particular channel such as competitors, regulatory agencies, and trade associations. The external political economy influences the internal political economy through adaptation and interaction processes.

A brief outline of the components described above and their related constructs follows:

- 1) The Internal Economy

- a) Internal Economic Structure-

- Transactional Form ....(i.e. Relationship Type - Market to Hierarchy)

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**b) Internal Economic Process-**

**Decision Mechanisms (i.e. Centralized Planning, Bargaining,  
Market Transactions)**

**2) The Internal Polity**

**a) Internal Polity Structure-**

**Power/Dependence Relations**

**b) Internal Polity Processes-**

**Dominant Sentiments and Behaviors ....(i.e. Cooperation,  
Coercion, Contract Formality)**

**3) The External Economy**

**4) The External Polity**

Beyond these efforts to clarify concepts such as power and cooperation, political economy theorists have endeavored to create general models of interorganizational relations. Robicheaux and Coleman (1994), for instance, helped to explicate the PEP by moving beyond the categorical assemblage of variables and placing ordered sets of clearly defined variables in a sequential model. They asserted that the level and interaction of antecedent conditions such as dependence, cooperation, and communication strategy jointly determine the relationship structure that is likely to emerge in a particular exchange relationship. That relationship structure, in turn, influences the degree of the various economic and polity performance outputs of the exchange, such as satisfaction.

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### 2.3.2 Negotiation

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The elements in the political economy framework are applicable in the purchasing and supply chain management fields because competitive market dealings have been increasingly replaced by vertical marketing systems. These systems rely on a high degree of interorganizational coordination and long-term relationships. The PEP can help to illuminate the dynamics of issues such as supplier development and the maintenance of long-term relationships. In a long-term context, outcomes such as perceived satisfaction and personal attraction become more important because they contribute to the ongoing development of the relationship. The political economy framework helps to move the focus to more dynamic constructs affecting the establishment and maintenance of transactional routines with suppliers.

### **2.3.2 Negotiation**

Negotiation is a fundamental phenomenon in interfirm exchange behavior in industrial markets (Perdue et al. 1986). The negotiating strategy that a firm adopts can be viewed as one of the competitive strategies that will enable the firm to maximize its competitive position vis-à-vis its rivals (Porter 1985). It is a dyadic process aimed at solving problems in a way that benefits all of the parties involved (Rinehart and Cadotte 1989). In the purchasing area, it is the decision-making process through which a buyer and a seller establish the terms of a purchasing agreement (Dobler et al. 1984).

The concept of negotiation presented here is very broad. While many people think of negotiation as bargaining or the actual interaction between the parties, this dissertation



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views bargaining as only one stage of a larger negotiation process (Rinehart et al. 1988). The negotiation process also includes stages prior to bargaining, such as environment assessment and strategy planning, as well as stages that take place after the bargaining such as outcome evaluation. A more complete definition of negotiation follows:

“Negotiation is a management process involving the preparation for bargaining, the interaction of two or more parties in a bargaining situation, and the resolution or outcome of this interaction” (Rinehart et al. 1988). Preparation includes the collection of information and its use on the formulation of interactive strategies designed to achieve the firm’s objectives in a bargaining situation. Bargaining includes the execution of these strategies as well as the “give and take” over individual issues that are necessary to satisfy the parties. The outcome represents the party’s perception of the agreement that has been fashioned. A positive perception of the agreement may lead to additional business between the parties while a negative perception may lead to the dissolution of the relationship. This definition of negotiation can also be extended help explain long-term relationships by viewing them as a continuing series of negotiations.

This perspective of the negotiation process asserts that the process consists of five stages. These stages include 1) the environments surrounding the parties, 2) the nature of the relationship and positioning of the parties, 3) the activities of preparation that each party goes through outside of the interactions, 4) the bargaining activities, and 5) the outcomes of the negotiation (Rinehart et al. 1988).

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Arndt (1979) identified three different levels of negotiations: transactional, contract, and structural. Transactional negotiations are of a tactical nature and do not commit the parties beyond a particular order or transaction. Contract negotiations include subcontracting and franchising and provide a framework for transactions over a period of time. Structural negotiations apply to the form and intensity of long-term and deeply committed interorganizational relationships (Arndt 1979). The broadened outlook on negotiations in this dissertation reflects all three levels.

While much of the channels literature focuses on activity between a manufacturing firm and the customer, the negotiation viewpoint allows us to also examine relationships between the manufacturing firm and its suppliers as well as supplier's relationships with each other. This ability to look both upstream and downstream from the focal firm makes the research very relevant to supply chain management. The use of the negotiation process to shed light on the development of customer-supplier relationships allows the researcher to investigate the wide array of situations appearing in the supply chain context.

### **2.3.3 Integrating the PEP with Negotiation**

The preceding sections give us the background needed to begin building a model that can explain the outcomes expressed by the parties to a negotiation. In essence, the PEP provides the constructs for the model and negotiation theory provides the basis for

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Lewicki and Litterer (1985) state that an important part of the negotiation process involves the power relationship between the parties. Power is the ability to influence a person's or an organization's behavior. Party A has power over party B if A can get B to do things that directly benefit B. The use of power can be part of the party's negotiating strategy, especially if the act of persuasion during the process is not generating the expected results (Lewicki and Litterer 1985).

The polity section of the PEP provides a rich context for the study of the negotiation process. The PEP contends that power is reflected by the degree of dependence encountered by the parties. The polity structure describes dependence patterns ranging from minimal power (low dependence), through mixed power constellations of balanced and imbalanced power (mutual dependence), to centralized power (unilateral dependence). The process portion of the polity sector provides the notions of cooperativeness, coercion, and formalization.

What remains is to position the constructs in a reasonable way. Negotiation theory provides the basis for this positioning. Graham (1987) has offered a theory to explain the outcomes of negotiations between representatives of buying and selling firms. He proposed that situational constructs (power relationships) and bargainer characteristics (interpersonal orientation, listening skills) influence the process of negotiation

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The model presents leading to negotiation outcomes. In components that

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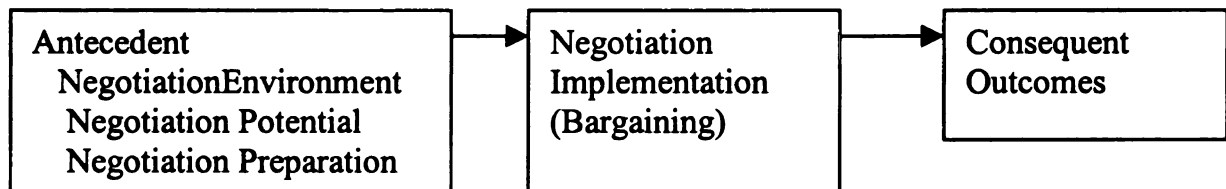
## 2.4 The Components

### 2.4.1 The Negotiation

The external environment has no control.

implementation (use of questions, initial demands, procedural discipline, impression formation, and topical control). Furthermore, the process of negotiation implementation affects negotiation outcomes such as economic rewards, satisfaction, and interpersonal attraction.

The model presented in this dissertation will follow that basic structure of antecedents leading to negotiation implementation (bargaining) processes that lead to consequent outcomes. In addition, it will further subdivide the antecedent stage into the three components that appear before the bargaining process in the Rinehart et al (1988) model.



The following sections will review work that has utilized the constructs found in the PEP and fully define them. The constructs will be discussed in the order that they appear in the model.

## **2.4 The Constructs Presented by Stage of Negotiation**

### **2.4.1 The Negotiation Environment**

The external environment addresses the elements over which the organization has little or no control. They include the characteristics of competition in the market, the general



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**2.4.2 Negotiations**

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state of the economy, legal and political requirements, technological applications, and cultural characteristics that affect the negotiators. The PEP treated these characteristics as part of the external political economy.

#### **2.4.2 Negotiation Potential**

Firms enter negotiations because there is a perceived opportunity for economic gain. The potential for gain is affected by 1) the anticipated costs and benefits of an agreement, 2) the ability of each party to deliver the resources required by the other party, 3) the cooperative sentiment or commitment existing in the relationship, and 4) the power/dependence of the organizations (Rinehart and Cadotte 1989).

Prior to engaging in the bargaining activities, the participants need to examine the relative positioning of the parties in the relationship. The relative positioning of the parties can be identified by assessing the extent of the conflict that exists in the relationship (Brown and Day 1981) and assessing the amount of power or dependence that exists in the relationship (Emerson 1962). It is critically important that the parties accurately measure their relative positions and recognize the level of dependence that exists unilaterally and mutually. The level of dependence can vary in response to the number of other parties that they decide to negotiate with. In the purchasing field, it has been recognized that the fewer sources that a firm deals with, the greater the amount of dependence in the relationship (Newman 1989). A firm may artificially increase its level of dependence on another firm by choosing to deal with only one or a few providers of a good or service

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The issue that is predominant at this stage of the negotiation is the level of dependence perceived by the negotiators. This construct was drawn from the internal polity section of the PEP and will be discussed in the following section.

#### **2.4.2.1 Dependence**

Dependence is defined as the firm's need to maintain the channel relationship with another firm in order to achieve desired goals (Frazier et al. 1989). It is the primary attribute of the internal polity structure dimension of the PEP (Stern and Reve 1980). There are two main approaches to explain the basis of a firm's dependence (Frazier et al. 1989). The sales and profit approach developed by El-Ansary and Stern (1972) emphasizes that the greater the percentage of sales and profit contributed by the source firm to the target firm, the greater the target's dependence on the source (El-Ansary and Stern 1972). In addition, the difficulty of replacing the source due to switching costs was considered to contribute to dependence levels. These switching costs are also emphasized in transaction cost analysis which views transaction specific investments to be the source of switching costs that lead to dependencies. The second major approach, the role performance approach, maintains that a firm will be more dependent on a source if that source performs its role well and if there are few alternative sources.

Anderson and Narus (1990) moved beyond the idea of "simple dependence" (a firm's perceived dependence on a working relationship) to consider the use of "relative

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Gundlach and Cadotte (1994) expanded upon that logic by looking at dependence dyadically. They asserted that firms become interdependent as a result of engaging in economic exchange to obtain resources that are out of their control, but necessary to the achievement of their goals. Thus, the degree of interdependence affects each party’s motivations, behaviors, and perceptions in the exchange. They broke interdependence into two dimensions: magnitude and relative asymmetry (Gundlach and Cadotte 1994).

The magnitude of dependence is represented as the sum of dependence of both parties existing in the relationship (Gundlach and Cadotte 1994). The second dimension presented by Gundlach and Cadotte (1994) is asymmetry of dependence. Relative asymmetry is defined as the comparative level of dependence in an exchange. Noordeweir et al (1990) measured both the buyer’s dependence on a supplier and supplier’s dependence on a buyer on a five-point scale (Noordeweir et al. 1990).

### **2.4.3 Negotiation Preparation**

Each negotiator will go through some level of preparation during a negotiation. That preparation includes the collection and synthesis of the information available to the parties, the establishment of goals for the negotiation, and the development of the strategies used during the bargaining.

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Goals must be established for the negotiation at two levels (Druckman 1973). First, each organization must determine the desired nature of relationship. Those relationships can be classified into transactional, relationship and ownership systems (Williamson 1975). However, each of these types of relationships requires a different negotiation goal (Anderson and Narus 1990). Second, goals must be established for each of the individual issues to be discussed.

Strategies are then developed for the bargaining activities (Rubin 1983). Those strategies include who should be involved, when and where bargaining should take place, and how the strategies will be implemented during bargaining. Strategies must be explicitly developed so that each bargaining session occurs without unexpected outcomes. A key issue at this stage of the negotiation is to decide upon the proper level of cooperativeness to exhibit when working with the other party. After a general negotiating style has been settled upon, additional considerations may include the initial positions to be taken, the nature and size of concessions to be offered, and the amount and kind of information to be offered.

#### **2.4.3.1 Cooperative Orientation**

After an assessment of the situation, negotiators will address questions concerning their preferred negotiating style. Personal and personality characteristics of the negotiators are highly influential in the negotiation process because both the buying and selling activities



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In their comprehensive review of negotiation prior to 1975, Rubin and Brown concluded that a key determinant of negotiation outcomes is the motivational orientation of the bargainers. They defined motivational orientation to be an attitudinal disposition toward ones bargaining opponent, ranging from individualistic to cooperative (Rubin and Brown 1975). One such disposition is the cooperative orientation of a negotiator. This is one of the behaviors represented in the internal polity process section of the PEP. Stern and Reve (1980) stated that “cooperation can be represented as a joint striving towards an object-the process of coalescing with others for a good, goal or value of mutual benefit.” In other words, two parties working together in a joint fashion toward their respective goals.

Perdue and Summers (1991) used the cooperative orientation of purchasing agents as a construct in their study of negotiation strategies (Perdue and Summers 1991). The cooperative orientation referred to the purchasing agent’s level of concern for the supplier’s welfare and dedication to the goal of providing suppliers a fair return. This concept also appears in Deutsch’s work where he describes it as the display of a positive interest in the welfare of the other party as well as one’s own welfare (Deutsch 1973).

#### 2.4.4 Negotiation

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- Competitive

- Sharing-cooperative

- Accommodating

- Avoidant

#### **2.4.4 Negotiation Implementation (Bargaining)**

Bargaining activities comprise those events that occur when the parties are interacting. The interaction includes position development, issue discussion, and finalization (Richardson 1977). Bargaining is a circular process that the parties go through on each issue by implementing an initial position on an issue, discussing the issue, modifying their positions through concession activities, and coming to a final agreement on each issue. The parties must address the environment in which the bargaining takes place, the behaviors of the negotiators, the terminology used by the parties, and the reactions of the parties to issues presented. Culmination of these activities results in unofficial agreement.

Negotiating styles during the negotiation implementation phase range from an aggressive, self-centered approach to a cooperative, relationship oriented approach. Thomas developed a typology of five types of negotiation styles (Thomas 1976):

- Collaborative-attempting to satisfy both parties completely.
- Competitive-attempting to satisfy oneself completely at the other's expense.
- Sharing-compromising
- Accommodating-attempting to satisfy the other fully at the expense of oneself.
- Avoidant-withdrawing from the interaction.

Another early type of bargaining tactic is structuring (Walton, 1985), which focuses on manipulating the environment closely to Thomas' (1976) identifying and separating style. Finally, the first two tactics focus on rewards and punishments.

The most common bargaining style is collaborative, which is used in an adversarial environment where the parties are interdependent. In this style, information is shared and this style is most effective.

Perdue and Sussman (1985) identified five bargaining styles and the material cost of each style. The buying firm's formal planning is influenced by their reliance on these styles.

Another early typology was provided by Walton and McKersie, who categorized the bargaining tactics into distributive bargaining, integrative bargaining, and attitudinal structuring (Walton and McKersie 1965). The distributive bargaining style primarily focuses on manipulating and modifying the positions of the other party and corresponds closely to Thomas' notion of a competitive style. The integrative bargaining focuses on identifying and searching for a problem solution that is similar to Thomas' collaborative style. Finally, the attitudinal structuring tactics fall somewhere in the middle between the first two tactics and are aimed at influencing the opponent's cognition through shifting rewards and punishments.

The most commonly used style in negotiations between customers and suppliers is the collaborative style, followed by the competitive style (Perdue et al. 1986). In an adversarial environment there will be a tendency to limit information exchange between the parties. In a cooperative environment, however, the parties will more freely exchange information in order to arrive at a mutually beneficial agreement (win-win outcome). This style is more likely to result in a longer-term agreement (Heide and John 1990).

Perdue and Summers (1991) further investigated the relationships between bargaining style and the six characteristics of the purchase context. These characteristics were material cost sensitivity of the buying firm, supplier competition, uniqueness of the buying firm's specifications, buyer's cooperative orientation, information possession, and formal planning. The negotiating stance adopted by industrial buyers was characterized by their reliance on either a problem solving style of bargaining or an aggressive style.

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The problem solving style is typified by a search for alternative courses of action and the joint assessment of consequences. Aggressive bargaining is characterized as the extent to which negotiators stand firm in their positions and use tactics designed to elicit concessions from the other party. The results of the study demonstrated the abilities of the contextual characteristics to predict the negotiation strategies in any particular set of negotiations.

Ganesan worked with the same type of framework to investigate the relationship between negotiation strategies and relative power, long-term orientation and issue importance (Ganesan 1993). Research in buyer-supplier relationships showed that the vast majority of purchasing agents surveyed utilized only the three styles of problem solving, compromising, and aggressive (Day et al. 1988). Ganesan's (1993) results not only showed that there were relationships between the strategies and the previously mentioned variables but also indicated that there were two dimensions of aggressive strategy, namely passive aggressive strategy and active aggressive strategy. An active aggressive strategy is an active behavior potentially designed to deliver negative outcomes to the opposite party, as opposed to the passive aggressive strategy that utilizes threats, persuasive arguments, and punishment without the pre-designed intention to bring about the negative outcome. Most firms are reluctant to use these aggressive tactics and Ganesan found that they were typically reserved for only the most important issues.



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While there are many attributes of negotiation implementation, two that can be accurately assessed in the classroom simulation context are the level of coercion and degree of contract formality. A discussion of these two attributes follows.

#### **2.4.4.1 Level of Coercion**

Negotiation styles used during the negotiation implementation stage can be viewed in a manner similar to the influence strategies presented in the marketing literature. Coercive influence strategies refer to “mechanisms for gaining target compliance through negative consequences” (Gundlach and Cadotte 1994). Coercive strategies include the use of tactics such as punishment, threats, and demands. Non-coercive strategies are defined as mechanisms that reference or mediate positive consequences for compliance (Hunt and Nevin 1974) and include rewards promises, recommendations, and information exchange. The use of these strategies will have an impact on the ultimate willingness of the supplier to make transaction specific investments and participate in supplier development activities. Recent research seeks to show that such a governance perspective may mediate the relationship between manufacturer relative dependence and distributor opportunism (Anselmi and Marquardt 2000).

Coercion is an influence strategy based on the utilization of power. Research on power is rooted in the bases of power classification proposed by French and Raven (French and Raven 1959). These bases included reward power, coercive power, legitimate power, referent power, and expert power. More recently, researchers have argued for a

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distinction between the possession of power and the actual use of that power (Frazier and Summers 1984; Gaski 1984). Frazier and Summers (1984) go on to delineate six different influence strategies: requests, information exchange, recommendations, promises, threats and legalistic pleas. They suggest that these six influence strategies differ in two respects: 1) those that are coercive versus those that are non-coercive and 2) those that alter versus those that do not alter a target's perceptions.

In a similar vein, strategies were broken into a three-way classification in a study concerning intra-firm relationships (Venkatesh et al. 1995). They based their grouping on coercive intensity: 1) non-coercive strategies (requests and information exchange), 2) soft-coercive strategies (recommendations and promises), and 3) hard coercive strategies (threats and legalistic pleas).

The negotiation strategies, styles, and tactics reviewed above conceptually share one common characteristic: they range from an aggressive self-centered pole to a cooperative, relationship-centered pole. The Political Economy Paradigm asserts that the way in which power is used within a channel will clearly affect the sociopolitical processes (Stern and Reve 1980). One of the original propositions posits that "in marketing channels characterized by imbalanced power, the use of coercive power will produce a dysfunctional level of conflict. The level of coercion utilized is one of the behavior aspects identified in the internal polity section of the PEP.

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#### **2.4.4.2 Contract Formality**

The PEP asserts that there are internal economic processes operating parallel to the internal economic structure of a channel. Between the two extremes of markets and hierarchies “lies a wide variety of structures in which the market mechanism is modified through some kind of formal or informal contractual arrangements between the parties” (Stern and Reve 1980). Contract formality is defined as the extent to which the agreement was formal, explicit, and detailed rather than informal, vague, or loose (Mohr et al. 1996).

Market-based transactions obtain performance through formalization. By contrast, bilateral agreements rely on relational norms and participation to enhance performance. Unilateral agreements rely both on formal controls and relational norms to obtain desired levels of performance (Dahlstrom et al. 1996). Etgar goes beyond this to posit that the stability of intrasystem relationships makes possible the development of specific communicative language and standard communicative vehicles that facilitate and speed up transmission of communication (Etgar 1976).

Economists and legal scholars have developed a stream of research exploring the use of contractual arrangements to explain interorganizational relationships (Rindfleisch and Heide 1997). According to Transaction Cost Analysis, a safeguarding problem arises when a firm deploys specific assets and fears that its partner may act opportunistically to exploit these investments. Recent work in TCA theory suggests that firms can safeguard

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their specific assets through a wide range of hybrid governance mechanisms such as pledges and bilateral contracting (Williamson 1991; Williamson 1996).

Transaction cost theorists argue that anticipated transaction costs determine the type of contract used in an alliance due to worries about opportunism. These include the costs of negotiating written contingent contracts, monitoring contractual performance, enforcing contractual promises, and addressing breaches of contractual promises (Joskow 1987; Gulati 1995).

The contract used for an alliance will be closer to either the market or hierarchy extreme, depending on the magnitude of the transaction costs (Gulati 1995). The contract is a mechanism by which firms can protect themselves from a partner's opportunism. In the face of the hazards associated with alliances, the contracts reflect the risks that the partners see (Ring and Van de Ven 1992). Firms, to some degree, substitute trust for contractual safeguards in their repeated alliances

The domain of formalization reflects the extent to which norms of a system are formulated explicitly, responsibilities are specified, and emphasis is placed on written contracts (Dwyer and Oh 1987). The formality of a contract reflects the degree to which an agreement is subject to highly defined conditions. Contractual formality can be placed on a continuum with a simple letter of intent at one extreme and a long complex legal document at the other end (Bucklin and Sengupta 1993). If dependence is either very high or very low, the party may prefer a contract in order protect itself. Contracts are



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often used to restore balance to the relationship. Bucklin and Sengupta (1993) found that co-marketing alliances prosper when they are relatively structured toward balance.

The preference for a certain degree of contract formality is a type of behavior found in the internal polity process section of the PEP.

#### **2.4.5 Negotiation Outcome**

The last stage of the negotiation process, negotiation outcome, includes the interpretation of the agreements made during bargaining stage and the assessment of the benefits gained from the process. Those benefits include prices paid /revenues generated, service attained, operating costs saved, value achieved and profits gained (Dommermuth 1976). Given a comparison level, such outcomes can affect a channel member's satisfaction (Anderson and Narus 1984, 1990).

##### **2.4.5.1 Satisfaction**

Based on Anderson and Narus (1990), satisfaction is defined as the overall approval of and affect toward another party based on an appraisal of all aspects of a firm's working relationship with another firm.

The outcome of any negotiation is dependent both on the nature of the conflict problem and the type of strategy used to solve that problem (Lewicki and Litterer 1985). Channel

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satisfaction refers to either the affective evaluation (Schul et al. 1985) or cognitive evaluation of the characteristics of the relationship (Frazier 1983a; Mohr and Nevin 1990). One way to tap in to satisfaction is to assess the willingness of the party to continue the relationship. A willingness to continue enables the expansion of the relationship, which is one of necessary stages in relationship development (Dwyer et al. 1987). Expansion refers to the continual increase in benefits obtained by exchange partners and to their increasing interdependence.

Frazier (1983a) has framed the expansion process as a consequence of each party's satisfaction with the other's role performance and its associated rewards. In a negotiation simulation, Graham (1986) found statistically significant relationships between a source's problem solving approach and the target's satisfaction with the negotiation (Graham 1986).

Alternatively, dissatisfaction with an exchange partner may hinder morale, impede cooperation, or precipitate litigation (Hunt and Nevin 1974). This makes satisfaction a significant criterion for evaluating channel relationships (Dwyer and Oh 1987). Generally, high levels of satisfaction will have positive consequences for the relationship and lead to a willingness to increase the dependence on the relationship. On the other hand, continued dissatisfaction with achieved rewards, along with the perceived availability of a more desirable exchange partner, will lead to the dissolution of the relationship (Frazier 1983a).

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The negotiating process is central to managing interorganizational relationships because the ways in which agents negotiate and execute a relationship strongly influence judgments concerning how equitable and efficient the agreement is (Ring and Van deVen 1994). An interorganizational relationship is viewed as a repetitive sequence of negotiation, commitment, and execution stages, each of which is assessed in terms of efficiency and equity. In the bargaining stage the parties develop joint expectations about their motivations and possible investments. The wills of the party meet in the commitment stage as the terms and governance structure of the relationship are established. Congruent expectations include areas such as common agreement on norms such as the sharing of proprietary information (Ring and Van deVen 1994).

The channels literature suggests that channel outcomes consist of two steps, a qualitative step followed by a quantitative step (Robicheaux and El-Ansary 1976-1977). The first step involves the impact of channel conditions on qualitative outcomes such as satisfaction. The second step links the qualitative outcome to a quantitative outcome such as performance (Mohr and Nevin 1990). Thus, satisfaction can be an important precursor to performance improvement. Performance improvement can't be measured in a classroom simulation, however, so satisfaction will be the outcome measured.

Satisfaction is the focal consequence of working partnerships in the model presented by Anderson and Narus (1990). They contend that satisfaction is a close proxy for concepts like perceived effectiveness and may be more predictive of future actions by partner firm managers. For instance, Gladstein found that satisfaction leads to the long-term

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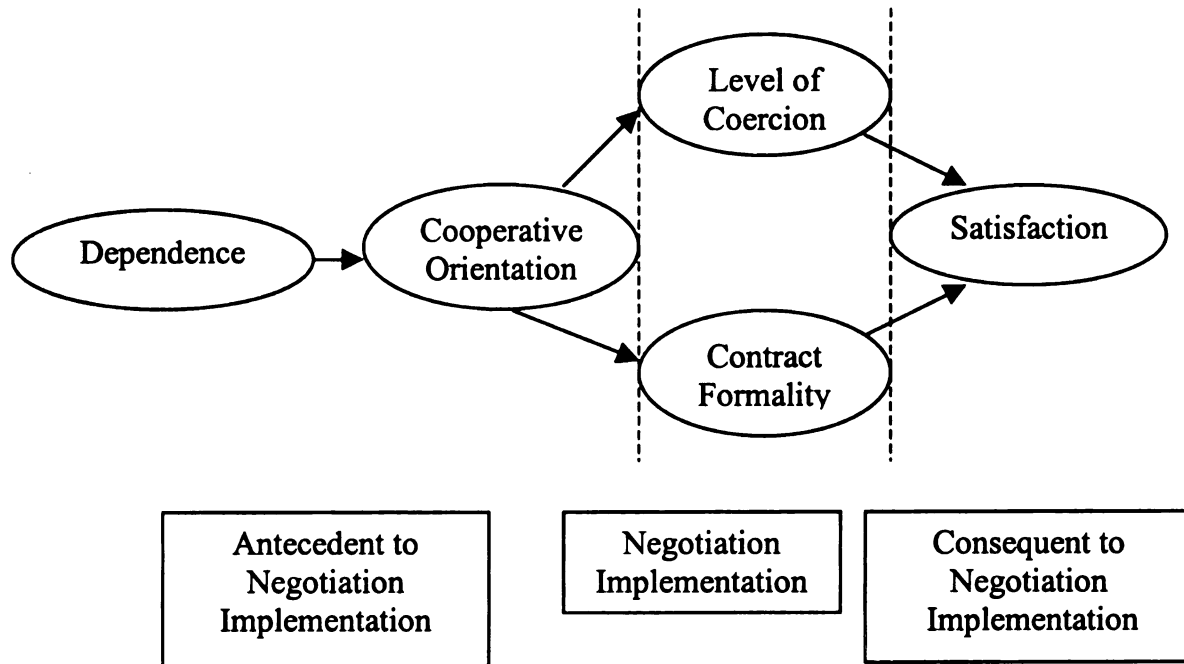
continuation of relationships (Gladstein 1984). Thus, satisfaction is the final construct appearing in the model.

#### **2.4.6 Building the Model**

The preceding discussion has drawn elements from the PEP and discussed how these elements have been utilized in prior research. Based on the negotiation theory provided by Graham (1987) and Rinehart et. al. (1988), these elements can now be positioned in the model according to the order of their appearance in a negotiation process. The elements appearing prior to negotiation implementation are the assessment of dependence and the cooperative orientation of the negotiator. Next, the negotiation implementation occurs. At this time the negotiators exert a certain level of coercion in order to achieve their goals. A degree of contract formality is also sought in order to achieve those goals. Lastly, the outcome of the negotiation is assessed, as reflected by the degree of satisfaction. It can be seen that each construct is positioned according to the timing of its appearance in the negotiation process.



**Figure 2.1 The Integrated Base Model**



This is the base model that reflects the tenets of the PEP as well as the theory of negotiation presented by Graham. Specific hypotheses concerning the relationship of these constructs to each other will be presented in Chapter Three. This base model completes the first section of the literature review. The second section will expand upon this model to investigate the potential interaction effect that the type of relationship may have on the degree of satisfaction derived from the negotiation.

## **2.5 Relationship Dynamics**

The second portion of this dissertation concerns how the effects shown in the model may vary according to the type of relationship established. For instance, if a party has

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established an administered relationship, then high levels of coercion may have a lesser impact on its satisfaction than if the party has implemented an alliance. In order to establish a basis for making these kinds of comparisons, it is necessary to review the literature on interorganizational relationships and present a relationship typology. At the conclusion of the negotiation, the participants will have formed some type of relationship. It is posited that the type of relationship formed will moderate the effect of the negotiation implementation on the degree of satisfaction derived.

Researchers interested in the broad topic of marketing channels began to adapt a behavioral orientation in the late 1960's (Brown et al. 1984). Since that time, marketing has become more relationship focused and the distribution channel has been viewed as a set of behavioral relationships involving power, conflict and relational norms. Macneil provided much of the foundation in the area of relational norms (Macneil 1980). He attempted to distinguish short-term orientations from long-term orientations in business exchange by paying attention to important norms such as the willingness to continue relations in the face of trouble.

Relational or social norms are defined to be patterns of accepted and expected sentiments and behavior that are shared by members of an exchange system and have the force of social obligation or pressure (Jackson 1966; Birenbaum and Sagarin 1976). Such norms represent an overarching, complex construct composed of a number of elements (Noordeweir et al. 1990). They have been operationalized in terms of solidarity, mutuality, information exchange, flexibility, role integrity, and harmonization of conflict

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To fully understand supplier-customer relationships, they need to be characterized in terms of elements that distinguish among them. Much of the literature on relationship management focuses on the general constructs of trust between the parties, the level of interaction between the parties, and the commitment of the parties to the relationship as important attributes of the relationship (Dwyer et al. 1987; Frazier et al. 1988; Anderson and Narus 1990; Nishiguchi 1994; Ring and Van de Ven 1994; Handy 1995; Rinehart et al. 2000).

These three relational norms do not constitute an exhaustive set of norms found in the literature but they are central and representative indicators of relationship structure in customer-supplier relationships. These attributes will form the basis of the relationship typology to be utilized in comparing effects found in the model between relationship types. The attributes operate at both the personal level and at the organizational level, so both aspects of each will be discussed below.

### **2.5.1 Trust**

Trust has been defined as the belief that a party's word or promise is reliable and that a party will fulfill his/her obligations in an exchange relationship (Blau 1964; Schurr and

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Ozanne 1985). Trust is a concept that is critical to the foundation of supplier-customer relationships and has been identified as one of the central constructs in relationship marketing theory (Morgan and Hunt 1994). The presence of trust can help to avoid the expense of drafting comprehensive agreements for contingencies. Researchers have recognized trust's influence on coordination and control at both institutional (Zucker 1986; Shapiro 1987) and interpersonal levels of organizations (Granovetter 1985). The underlying elements of trust have been segmented into personal characteristics (Anderson and Narus 1990; Doney and Cannon 1997; Smith and Barclay 1997) and organizational capabilities (Ring and Van deVen 1994; McAllister 1995). A brief review of those aspects follows.

#### **2.5.1.1 Personal Character**

The study of supplier-customer relationships has shifted from a focus on the organizational traits associated with relationships to a focus in which personal trust between the parties has been acknowledged as an important ingredient (Heide and John 1992; Handy 1995). McAllister (1995) concluded that trust occurs in cognitive and affect-based forms. Cognition based trust has its roots in reliable role performance, cultural-ethnic similarity, and professional credentials, while the affect-based form is a function of individual behavior and interaction frequency. Both forms were found to enhance coordination by lowering administrative costs. Coordination is related to trust through boundary definition, and reflects the set of tasks each party expects the other to perform (Mohr and Spekman 1994). Trust has also emerged as an important component

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of supplier/manufacturer relational exchange norms (Young et al. 1993), and firms are beginning to acknowledge the importance of trust and coordination in cooperative relationships (Pilling and Zhang 1992; Smith et al. 1995).

Gulati (1995) conceived of trust as “a type of expectation that alleviates the fear that one’s exchange partner will act opportunistically”. He found that suppliers and customers are less likely to use equity sharing agreements as they gain more experience with each other through ongoing relationships. Moreover, greater familiarity between the parties bred trust, which replaced legal relationships. Investments in activities that increase trust can lead to significant increases in the quality and duration of supplier-customer relationships, which further increases the likelihood that parties may be willing to make greater investments in future transactions (Friedman 1991; Ring and Van de Ven 1994).

The idea of trust emerging from prior contact is based on the premise that through ongoing interaction, firms learn about each other and develop trust around norms of equity, or knowledge based trust (Shapiro et al. 1992). Interfirm trust is built as firms repeatedly interact (Good 1988). The larger the number of prior alliances between the two firms, the less likely are their subsequent alliances to be equity based. Taken together, the results suggest that firms select contractual forms for their alliances on the basis not only of the activities they include (i.e. research and development), but also the existence and frequency of prior ties to a partner.

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Interorganizational trust operates as a governance mechanism (Bradach and Eccles 1989; Heide 1994) that mitigates opportunism in exchange contexts characterized by uncertainty and dependence. In a distribution channels context, research has shown that a downstream member that trusts its supplier exhibits higher levels of cooperation (Morgan and Hunt 1994) and exerts more effort on behalf of a principle (Anderson et al. 1987). Trust in a supplier also reduces conflict and enhances channel member satisfaction (Anderson and Narus 1990). Finally, a firm that trusts its suppliers is more committed to and intends to stay in the relationship (Anderson and Weitz 1989; Morgan and Hunt 1994; Doney and Cannon 1997).

#### **2.5.1.2 Organizational Capability**

Organizational level dimensions address the capability of the other organization to meet the needs of the focal organization. In this sense, trust has been viewed as a belief or expectation about an exchange partner's trustworthiness that results from the partner's expertise, reliability or intentionality (Blau 1964; Rotter 1967; Pruitt 1981; Moorman et al. 1992).

Trust at this level implies that a firm has the resources available and is capable of implementing those resources for the benefit of the relationship (Anderson and Narus 1990). For example, a firm's assignment of specific assets to a relationship can affect the other party's interpretation of that firm's willingness to pursue or continue the relationship. Research suggests that asset specificity can play a major role in cultivating

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trust between the parties involved in supplier-customer relationships (Ring and Van deVen 1994). Transaction-specific investments serve as safeguards under conditions of uncertainty. This phenomenon has also been referred to as "bilateral hostages" (Borys and Jemison 1989), and suggests that an important linkage exists between asset specificity and trust.

It seems possible that the organization may well, in aggregate, have a style of behavior, which affects trusting (Young and Wilkinson 1989). Trust is most likely to grow in situations where it is given the option of growing naturally, i.e. where there are no written contracts defining the terms of the relationship.

### **2.5.2 Level of Interaction**

Communication among participating organizations is vital for both initiating interactions and managing recurrent exchanges (Van de Ven 1976). It has become more important during the last decade due to the requirements of management programs such as just-in-time and lean manufacturing. O'Neal found that openness of communication was fostered by the just-in-time environment (O'Neal 1989). Customers were more willing to share schedules and plans in both the short term and the long term. In addition, early clarification of expectations is critical. It is important to interact regularly in the early stages of the relationship to establish the lines of communication (Ellram 1991).

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Information exchange has been defined as: “a bilateral expectation that parties will proactively provide information useful to the partner” (Heide and John 1992); “the exchange of atypical information, particularly long-term forecasting, proprietary, and structural planning information” (Noordeweir et al. 1990); “the nature (i.e., proprietary, long term forecasting, product design) and timeliness of information share by exchange partners” (Anderson and Narus 1990; Pilling and Zhang 1992). In this dissertation, information exchange is defined as a bilateral expectation that parties will proactively provide information useful to the partner (Heide & John 1992).

Success in a supplier-customer relationship is partly based on how frequently the parties interact concerning business activities and the volume of business transacted. At the personal level, communication frequency affects each party’s perception of the value created by the other through time spent communicating with the other party. At the organizational level, interaction frequency is characterized by the amount of business transacted between the parties.

#### **2.5.2.1 Communication Frequency**

Communication and the sharing of information are fundamental to most aspects of supplier-customer relationships (Kapp and Barnett 1983; Mohr and Nevin 1990). Indeed, it has been proposed that the exchange of information serves to "create" a necessary environment for these relationships (Weick 1969; Pfeffer and Salancik 1978). Information also provides cues as to what is considered organizationally important, and

provides details on what portions of the environment are monitored by the organization. In order for the boundary spanner to react appropriately, the organization must have a good theory of its own reality. Unless this perceived reality is disseminated to the boundary spanner in a meaningful manner, the information has no utility.

Communication frequency captures the utility of this information exchange and is deemed to be a key indicator of a relationship's vitality (Handfield 1993b; Mohr and Spekman 1994). Two important elements of communication between the boundary spanners include information quality and information participation. Information quality includes such aspects as the accuracy, timeliness, adequacy, and credibility of information exchanged (Daft and Lengel 1986; Huber and Daft 1987). Information participation refers to the extent to which the parties engage jointly in planning and goal setting (Mohr and Spekman 1994). Macneil (1981) recognized the importance of honest and open lines of communication for the continued growth of close ties between trading partners (Macneil 1981). These two attributes are positively related in longer-term relationships.

#### **2.5.2.2 Business Volume**

The frequency of interaction at the organizational level is based on the amount of business transacted between the parties. Intensive two-way communication concerning plans, programs, expectations, goal setting, and performance is critical for resolving disputes and coordinating actions (Arndt 1979). For example, a customer that has a large



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concentration of retail stores generating greater volumes of product sold to ultimate consumers can demand greater support in the form of more frequent deliveries and guaranteed product availability from their suppliers. Therefore, the large volume of transactions and resulting revenues reflects the influence that the customer can have over the supplier.

It is assumed that the likelihood of a strong relationship between a manufacturer and supplier increases over time if relational exchange norms emerge between parties that cause positive outcomes such as guaranteed business volumes. Since contracts can help establish and insure these relationship exchange norms, we expect that parties to a supplier-customer agreement rely more readily on formal contracts to capitalize on their market opportunities evolving from the relationship.

Firms can enhance the chances of alliance success by communicating the advantages of such an alliance to suppliers and by giving information and assistance (Mohr and Nevin 1990). On the other hand, failure in the alliance building process can be due to the failure to share information or failure to provide technical assistance. Their research found some evidence, but not statistically significant, that large suppliers may be more difficult to entice into forming an alliance. A relationship seems unlikely to form without a bilateral communication of wants, issues, inputs, and priorities.



### **2.5.3 Commitment**

The last of the three relational norms to be considered is commitment. Commitment has been defined in the literature as “an implicit or explicit pledge of relational continuity between exchange partners” (Dwyer et al. 1987); “a bilateral expectation that a high value is placed on the relationship (Heide and John 1992); the degree to which the preservation of the unique and continuing relationship is internalized by the exchange partners as being important in and of itself” (Boyle et al. 1991); and “the extent to which the involved parties view the exchange as being important in and of itself” (Kaufmann and Stern 1988; Dant and Schul 1992).

Commitment is an essential ingredient for successful long-term relationships (Gundlach et al. 1995). They argue that where credible commitments are jointly pledged, their presence cultivates shared trust and the development of social norms which in turn work to maintain the relationship. For instance, cooperation can be increased more readily by increasing the extent of anticipated future interaction or frequency of contact (Heide and Miner 1992). Extendedness of the relationship had a large and significant positive effect on cooperative behavior. This means that expected future interaction in and of itself can influence cooperative acts in the present. Firms only agree to enter such arrangements when the expectation of future benefits is present (Dyer and Singh 1998).

### **2.5.3.1 Perceived Dependence**

Commitment involves the perception of dependence that one party perceives that they have on the other, and the amount of investment in time and resources that the organization makes in the relationship (Gundlach et al. 1995). Since being introduced into the channels literature by Stern and his associates (El-Ansary and Stern 1972), based on pioneering work by Emerson (Emerson 1962), the dependence construct has had a reasonably prominent role in channels research (Etgar 1976; Frazier 1983a; Frazier et al. 1989).

Dependence exists when one of the boundary spanners does not entirely control all of the conditions necessary for achievement of a desired outcome performed by the other party (Emerson 1962). Resource dependence theory specifies the conditions under which one unit is able to obtain compliance with its demands when dependence between the parties is present (Pfeffer and Salancik 1978). Three critical factors that affect the degree of perceived dependence include the importance of the resource, the extent to which the group has discretion over it, and the extent to which there are limited alternatives. For instance, Provan and Skinner (1989) found that dealers of agriculture equipment were less opportunistic when they depended on a primary supplier, whereas suppliers with greater control over dealers' decisions exhibited greater opportunism (Provan and Gassenheimer 1994). Also, Frazier, Gill, and Kale (1989) posit that boundary spanners often employ a number of coercive influences on the other party under various conditions

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### **2.5.3.2 Organizational Investment**

Commitment to a relationship is most frequently demonstrated by allocating resources to the relationship. These resources may include a manager's time, money, facilities, or equipment, etc. These types of resources are often referred to as "asset specific" resources, in that they are directed specifically toward the other party (Dyer and Singh 1998).

Supplier-customer relationships are less likely to use equity-sharing agreements as they gain more experience through on-going business with each other (Gulati 1995). Dependence on a single supplier will be functional only if both companies perceive the strategic benefits of such an arrangement, for example (Anderson and Narus 1990; Spekman 1988). Research has shown that the specific pattern of dependence that characterizes a relationship has implications for how it is organized. Both parties must be somehow locked in (Heide 1994). To some extent, interdependence between the parties has been viewed as an extension of equity sharing.

The influence of asset specificity on organizational relationships was originally described by transaction cost theorists (Williamson 1979), and the concept was later extended to help explain the formation of "clans" (Ouchi 1980). Theorists have only recently begun to explore how the commitment of assets influences the nature of supplier-customer

relationships. Several studies have found a relationship between resource commitment and the joint action or continuity between parties within supplier-customer relationships (Heide and John 1990; Friedman 1991; Yoshino and Rangan 1995).

Credible commitments in the form of asset specific investments help to cultivate trust and norms while constraining opportunism (Gundlach et al. 1995). These authors warn, however, that disproportionate commitments can result in conflict and dissatisfaction, ultimately leading to opportunistic behaviors.

In his study of the evolution of Japanese keiretsu, Nishiguchi identified four types of resources that are related to commitment in long term supplier-customer relationships: physical resources (dies, molds, tooling), site specific resources (e.g. re-located facilities), dedicated resources (additional investment in generalized production capacity) and human resources (customer-specific personnel) (Nishiguchi 1994). In contrasting successful and unsuccessful supplier-customer agreements, Nishiguchi found that successful relationships had greater levels of site asset specificity and three times as much human asset specificity as their less successful counterparts. Another study found that in successful relationships the parties invested substantially more in capital asset requirements, dedicated equipment, and human resources (Dyer 1994). These results suggest that longer-term relationships tend to be characterized by a willingness of both parties to commit a variety of different assets to a set of future transactions.



The elements of trust, interaction and commitment will be used to differentiate the types of relationships into which the parties can enter. The specific relationship types derived from this analysis have been developed by Rinehart et al (2000) and will be discussed in Chapter Three.

## **2.6 Conclusion**

Chapter Two presented a review of the literature related to the current study. The review examined previous research in the areas of interorganizational relationships and negotiation. The specific constructs of the model were presented as well as the conceptual foundation of the model. The attributes upon which a relationship typology can be built were also discussed. A further explication of the model as well as the research questions, hypotheses and methods used to fulfill the study's research objectives will follow in Chapter Three.

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## **CHAPTER 3: RESEARCH EXECUTION**

### **3.1 Introduction**

This chapter reviews the research design that is intended to provide a sound theory test for the model. The test includes consideration of the measurement of the model's constructs as well as statistical testing of the hypotheses concerning proposed effects between constructs.

The highlight of the design is a classroom simulation of the negotiation process. The participant's perceptions of the characteristics of the process itself are assessed at three points in time as the negotiation simulation progresses. The main statistical methods used were correlation, multiple regression, and structural equation modeling. The results were interpreted for their managerial and theoretical significance.

Three stages of information collection took place at the following times:

- 1) Before the beginning of negotiation preparation to assess the participants predispositions and perceptions of the environment.
- 2) After the group preparation of a negotiation strategy and execution of that strategy.
- 3) After completion of the simulation when final results relative to the other groups are known.

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## **3.2 Research Design**

The following sections review the study design and provide the rationale for that design.

### **3.2.1 General Issues**

A sequential survey design was employed to obtain data at successive stages of the negotiation simulation corresponding to the stages presented in the model. The research was conducted in connection with an undergraduate class at a major research university. Each participant was asked to complete questionnaires that captured their perceptions at critical points in time during the simulation.

A simulation such as this provides an excellent method to uncover the dynamics of the negotiation process, especially individual-level elements. In the channels area, “past research has not addressed individual-level characteristics in part because of the difficulty of determining what individuals have a significant impact upon firm-level behaviors” (Dickson and Weaver 1997). This difficulty can be overcome by utilizing the controlled environment of the classroom. A classroom simulation also allows access to exchange environments in a dyadic form, which is important for studying exchange behavior (Achrol et al. 1983). Behavioral simulations allow researchers to create interdependent organizational units and study dyadic relationships under controlled circumstances

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(Gundlach and Cadotte 1994). Although this dissertation utilized unit analysis, dyadic data will be available for later analysis.

### **3.2.2 Sample**

Approximately 150 participants were involved in the simulation. The participants were assigned to groups of two to four members before the start of the simulation. Three types of groups were established that corresponded to the functions of carriers, distributors, and manufacturers. Each group was given a set of information to work with in setting goals and carrying out the negotiation. An example of that information is presented in Appendix A at the end of the dissertation.

### **3.2.3 Unit of Analysis**

The unit of analysis in this research is the relationship. Participants were asked to answer questions about each relationship they had forged with another party. Each participant filled out a questionnaire concerning each relationship that they were preparing to enter or had entered. Only relationships that existed through all three phases of data collection were included. A total of 264 cases were ultimately identified.

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### **3.3 The Simulation Scenario**

The simulation replicates an emerging industry that produces a high-tech type product. Each group is responsible for creating the necessary customer/supplier relationships to accomplish their market objectives. The team is also responsible for making organizational decisions that are independent in the context of each customer supplier negotiation. Through internal discussion, each group must determine the type of relationship to be achieved with each supplier or customer and consider the financial implications of these relationships. Profit margin after taxes is the financial criteria upon which performance is judged. Elements of the operating environment such as facility size and workforce size have to be established as well as transaction elements such as pricing and quality level. A copy of the scenario and instructions appear in Appendix A.

### **3.4 Constructs and Hypotheses**

This section addresses the measurement of each construct incorporated into the model. The constructs used are based primarily on those appearing in the original Political Economy Paradigm presented by Stern and Reve (1980). Dependence and cooperativeness are elements appearing in the internal polity section of the framework. Level of coercion and degree of formalization also appear in the internal polity section. The treatment of satisfaction is based on the subsequent work of Anderson and Narus (1984, 1990). The sequence of the appearance of the constructs in the model follows the structure presented by Graham (1987).

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A brief review of each construct is presented as well as a measurement history of that construct. The final measures reflect that history and utilize previously tested elements where possible. Tests of the quality of the measures utilized are addressed later in this chapter. All of the scales are based upon the perceptions of the individual negotiator. A unit analysis will be utilized.

The discussion of the constructs is followed by the development of the theory and/or logic that supports applicable hypotheses. There are five structural hypotheses in the base model. The relationships between the constructs were illustrated in Figure 1.1 appearing in Chapter One. These will be followed by two supplemental hypotheses related to the moderator effect of relationship type.

The general research question is: What are the effects of environmental characteristics and negotiation strategy on the party's satisfaction with the negotiated agreement?

### **3.4.1 Dependence**

Dependence has been defined to be the target firm's need to maintain the channel relationship with another firm in order to achieve desired goals (Frazier et al. 1989). The market position of a party is an important environmental factor contributing to the level of dependence. The number of buyers and sellers in the market determines the degree of competitiveness in the marketplace and whether alternatives are available for a particular

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product or service. This also determines the amount of pressure that can be brought to bear by one party on the other (Ghaury and Usinier 1996). The fewer sources a target firm deals with, the greater the amount of dependence. A firm may artificially increase its level of dependence on another firm by choosing to deal with only one or a few providers of a good or service (Newman 1989).

This dissertation looks at only the focal party's level of dependence. This is measured both perceptually and on the basis of percentage of business. The volume of business is important because minor relationships may not warrant either the time or effort required for extensive interaction.

The questions on the scale were culled from articles by Noordeweir, John and Nevin (1990), Heide (1994), and Gundlach, Achrol, and Mentzer (1995). The scale appears in Appendix B.

### **3.4.2 Cooperative Orientation**

The cooperative orientation of the participants indicates their willingness to work with the other party in a cooperative fashion as opposed to an adversarial fashion. Stern and Reve (1980) stated that "cooperation can be represented as a joint striving towards an object-the process of coalescing with others for a good, goal or value of mutual benefit." In other words, two parties working together in a joint fashion toward their respective goals.

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Perdue and Summers (1991) used the cooperative orientation of purchasing agents as a construct in their study of negotiation strategies (Perdue and Summers 1991). The cooperative orientation referred to the purchasing agent's level of concern for the supplier's welfare and dedication to the goal of providing suppliers a fair return. This concept also appears in Deutsch's work where he describes it as the display of a positive interest in the welfare of the other party as well as one's own welfare (Deutsch 1973).

The scale used to measure cooperative orientation is drawn from Perdue and Summers (1991) and appears in Appendix B.

### **3.4.3 Dependence and Cooperative Orientation**

Research Question: What is the impact of dependence on the cooperative orientation of the negotiator?

The Political Economy Paradigm distinguishes between the political and economic aspects of channel structure while emphasizing the importance of assessing the interaction of these aspects. The internal polity component of this framework includes the socio-political forces within the channel, such as the power/dependence balance, cooperation, and conflict (Robicheaux and Coleman 1994).

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Stern and Reve (1980) proposed that, in conditions of balanced power, an interaction would be primarily cooperative. They posited that channels characterized by minimal power would exhibit low levels of cooperation. In a simulation, Gundlach and Cadotte (1994) found that a preponderance of the organizational units independently concluded that it was wise to employ primarily relationship-building tactics. This tendency increased as pairs of organizations intentionally developed higher levels of mutual dependence.

Rinehart and Page (1992) found that the negotiator's perception of dependence has a significant effect on the amount of influence the other party is allowed to bring to bear on the negotiation. They also found support for the importance of perceived dependence on the opposite party as an antecedent of the negotiators influence strategy (Rinehart and Page 1992). This effect is also supported by the findings of Anderson and Narus (1990) who established dependence as the antecedent of influence in working channel partnerships. Both of these studies suggest that the perception of dependence precedes the development of the negotiator's attitudes about the level of cooperative orientation to exhibit.

In general, as the dependence of the target organization increases, the more motivated it becomes to reach an agreement with the source firm. According to Emerson's (1962) conceptualization, the more the focal party depends on its counterpart, the more utility the counterpart provides and the more difficult it would be to replace that party. In

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general, competitive bargaining is more likely to occur with low dependence, while cooperative bargaining is more likely with higher dependencies (Roering 1977).

Dependence is also a factor in Transaction Cost Analysis. Williamson's (1975) concept of small numbers bargaining based on dealing with fewer suppliers also contributes to dependence due to concentrated input or output markets (Williamson 1975). Thus, the number of other parties with which the focal party intends to negotiate will impact their perception of dependence and then their predisposition to establish a certain type of relationship. On the other hand, if the party does not sense a high level of dependence, they will not feel a need to negotiate cooperatively. For all of the preceding reasons, the following hypothesis is put forth:

**Hypothesis 1: The perceived level of dependence will have a significant and positive effect on cooperative orientation.**

#### **3.4.4 Level of Coercion**

Coercive strategies are defined as "mechanisms for gaining target compliance that reference or mediate negative consequences for non-compliance" (Gundlach and Cadotte 1994). According to Gundlach and Cadotte (1994), interactions in low magnitude relationships can be quite competitive with participants employing coercive forms of influence to obtain desired terms. On the other side of the coin, non-coercive strategies will be used less often in these types of low magnitude situations.

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Non-coercive influence strategies are defined as mechanisms that reference or mediate positive consequences for compliance, such as rewards and information exchange (Hunt and Nevin 1974). These strategies are used in high magnitude relationships because they are less volatile and contribute to strengthening the relationship.

Coercive sources of power can be differentiated from non-coercive sources of power in that they involve potential punishment. Hunt and Nevin (1974) looked at the actual sources of power in a franchise relationship, including features such as the right to sell the franchise and the nature of the franchise agreement [Hunt, 1974 #332. Gaski and Nevin (1985) took a similar approach as their study included non-coercive activities such as the training of personnel, giving trade allowances, and providing ordering assistants as reward power sources. The use of coercive power sources included actions such as refusing to sell, delaying delivery and taking legal action (Gaski and Nevin 1985).

Boyle, Robicheaux, and Simpson (1992) investigated types of behaviors occurring during interaction such as making recommendations and promising items, both of which are non-coercive. Coercive behaviors were measured with scales referring to the use of legalistic pleas and threats (Boyle et al. 1991). In the purchasing area, Perdue and Summers (1991) developed scales measuring problem solving tactics as opposed to aggressive bargaining tactics (Perdue and Summers 1991).

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The scales used by Gundlach and Cadotte (1994) have the most relevance to this dissertation because they were developed for classroom simulation. They also contrast rewards and promises against threats and punishments similar to the previously mentioned research.

The scale used for level of coercion has been adapted from Gundlach and Cadotte (1994) and appears in Appendix B.

### **3.4.5 Dependence, Cooperative Orientation, and Level of Coercion**

The research question is: What are the effects of dependence and cooperative orientation on the level of coerciveness implemented in the negotiation strategy?

There are two schools of thought concerning the workings of characteristics such as cooperative orientation. Graham (1986) viewed these types of elements to be pre-existing negotiator characteristics. He asserts that both negotiator characteristics, such as cooperative orientation, and situational constraints, such as dependence, are determined before the negotiation process begins. Rubin and Brown (1985) utilize a similar construct, called motivational orientation, to describe a bargainer's attitude toward his bargaining opponent, ranging from individualistic to cooperative. This school of thought considers bargainer characteristics to be antecedents of the process related factors in a negotiation. The power relationship (dependence) is treated as a situational constraint and considered to be an antecedent along with the bargainer characteristics.

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The second way of looking at these interactions is to view the effect of negotiator characteristics as a moderator, exemplified by Dickson and Weaver (1997). They studied the effect of uncertainty in the environment on alliance use in a group of manufacturing firms. The critical point is that they found a moderator effect of key manager orientation intervening between uncertainty and alliance use. They base their model upon institutional theory, which suggests that “alliance formation may not only come about as a rational response to the environment, but may also be contingent upon taken-for-granted orientations and cultural norms” (Dickson and Weaver 1997). The individual factors of entrepreneurial orientation and individualistic/collectivistic tendencies were found to be moderators of firm level strategic decisions.

This is an interesting contrast in the literature. Dickson and Weaver (1997) show that the direct relationship between environmental conditions and alliance use does not tell the whole story. Their results indicate a significant interaction due to key manager orientations that intervenes between environmental perceptions and alliance use. We agree with this assessment on the basis of temporal precedence. The negotiator is aware of the level of dependence in a given situation and this leads him to offer a given level of cooperation as the negotiation strategy is developed.

Following the temporal sequence of events in the negotiation process, this dissertation posits that the cooperative orientation of the negotiator is established after dependence has been assessed and that it will influence level of coercion present in the negotiation.

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**Hypothesis 2: The cooperative orientation of the negotiator will have a significant and negative effect on the level of coercion used in negotiation.**

#### **3.4.6 Contract Formality**

The second aspect of negotiation strategy implementation to be measured is contract formality. The formality of the contract is measured based upon the participant's perception of the degree of detail and formal contractual terms appearing in the final agreement. The groups were given the option of concluding the negotiation based on a handshake, a short form contract, or a long form contract. The handshake is the most informal way to conclude the negotiation and also the least costly. At the other end of the spectrum, the long form contract contains specific stipulations concerning the product and service level required and it is the most expensive. The short form contract falls in between the handshake and the long-form contract.

The domain of formalization reflects the extent to which norms of a system are formulated explicitly, responsibilities are specified, and emphasis is placed on written contracts (Dwyer and Oh 1987). The formality of a contract reflects the degree to which an agreement is subject to highly defined conditions. Contractual formality can be placed on a continuum with a simple letter of intent at one extreme and a long complex legal document at the other end (Bucklin and Sengupta 1993).

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The scale used to measure contract formality is based upon the work of Mohr, Fisher, and Nevin (1996) investigating collaborative communication in interfirm relationships. The specific questions appear in Appendix B.

#### **3.4.7 Dependence, Cooperative Orientation and Contract Formality**

The research question is: What are the effects of dependence and cooperative orientation on the degree of contract formality implemented in the negotiation strategy?

The contract used for an alliance will be closer to either the market or hierarchy extreme, depending on the magnitude of the transaction costs (Gulati 1995). The contract is a mechanism by which firms can protect themselves from a partner's opportunism. In the face of the hazards associated with alliances, the contracts reflect the risks that the partners perceive. Ring and Van de Ven developed a set of propositions asserting that firms, to some degree, substitute trust for contractual safeguards in their repeated alliances. They did not, however, provide empirical support for these propositions (Ring and Van de Ven 1992; Ring and Van de Ven 1994).

Following the temporal sequence of events in the negotiation process, this dissertation posits that the cooperative orientation of the negotiator is established after dependence has been assessed and that it will influence the degree of contract formality present in the negotiation.

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**Hypothesis 3: The cooperative orientation of the negotiator will have a significant and negative effect on the degree of contract formality used.**

#### **3.4.8 Satisfaction**

Based on Anderson and Narus (1984, 1990), satisfaction is defined as the overall approval of and affect toward another party. Channel satisfaction refers to either the affective evaluation (Schul et al. 1985) or cognitive evaluation of the characteristics of the relationship (Frazier 1983a; Mohr and Nevin 1990). One way to tap in to satisfaction is to assess the willingness of the party to continue the relationship. This enables the expansion of the relationship, which is one of necessary stages in relationship development (Dwyer et al. 1987).

The scale used to measure satisfaction was adapted from the work of Smith and Barclay (1997), Anderson and Narus (1990), Gaski (1986), Kumar, Scheer and Steenkamp (1995), and Brown, Lusch and Smith (1991). It appears in Appendix B.

#### **3.4.9 Level of Coercion and Satisfaction**

The research question is: What is the effect of the level of coercion implemented in the negotiation on the negotiator's satisfaction with the negotiation?

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Channel power base research has consistently demonstrated that the use of coercive power results in more negative target attitudes than the use of expert, referent or information power. The threat or use of punishment has a negative effect on satisfaction, whereas the provision of assistances is related positively to satisfaction (Scheer and Stern 1992).

Mohr, Fisher, and Nevin (1986) presented results indicating that collaborative communication differentially affects outcomes under various types of governance. Collaborative communication lists non-coercive content as one of its key elements (in addition to frequency, bi-directionality and formality) (Mohr and Nevin 1990). Non-coercive content refers to the use of influence strategies based on information sharing, in which compliance is not mediated by the other party. Satisfaction, as reflected by the dealer's evaluation of the characteristics of the relationship, was one of the outcomes measured by this research (Mohr et al. 1996).

Additional support for the general effect of coercion on satisfaction is provided by Gaski and Nevin (1985). They found that the exercise of coercive power sources has a stronger negative effect on satisfaction than the mere presence of coercive power (Gaski and Nevin 1985).

Coercion is measured from the viewpoint of the focal party. This also suggests the total amount of coercion existing in the negotiation. When one party establishes the use of coercion in a conflict situation, the other party is likely to respond in kind, which will

intensify the conflict rather than resolving (Stern and Gorman 1969). In a similar vein, Thomas concluded that the behavior of the other party is to some degree a result of the behavior of one's own party (Thomas et al. 1972). Extending this logic, cooperative behavior tends to elicit cooperative behavior and coercive behavior tends to elicit coercive behavior.

Further support is provided by Frazier and Summer's (1986) findings that manufacturer's use of coercive strategies related positively to the dealer's use of coercive strategies and manufacturer's use of non-coercive strategies related positively to dealer's use of non-coercive strategies (Frazier and Summers 1986).

For the more dependent party, tolerance over coercion derives from the receipt of important resources (Frazier et al. 1989), a lack of alternatives, lower status, or a greater interest in sustaining the relationship (Anderson and Narus 1990). Thus the following hypothesis is proposed:

**Hypothesis 4: The level of coercion implemented in the negotiation will have a significant and negative effect on the degree of satisfaction.**

#### **3.4.10 Level of Contract Formality and Satisfaction**

The research question is: What is the effect of the degree of contract formality implemented in the negotiation on the negotiator's satisfaction with the negotiation?

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The role of formal and informal agreements has become of interest to alliance researchers with respect to the level of loyalty, cooperation, trust, and success that the agreement affords (Lassar and Zinn 1995; Frankel et al. 1996). Exogenous safeguards and formalized contracts are favored over exclusive reliance on trust in uncertain environments (Ring and Van de Ven 1994). The benefits of a written contract were discussed by Bucklin and Sengupta in terms of designing desired patterns of partner behavior and extracting penalties from failure to perform (Bucklin and Sengupta 1993).

Rindfleisch and Heide (1997) assert that the specific effects of different governance mechanisms have not been well documented by previous research. For instance, they assert that hard contractual provisions may serve as effective checks on opportunism but is unclear what other effects this mechanism may have. Young and Wilkinson (1989) found that a high level of formality in a contractual relationship (i.e. written contract) tends to produce more conflict than an unwritten contract (Young and Wilkinson 1989). Conflict, a major contributor to dissatisfaction, was apparent in all relationships investigated where there was a written contract controlling the major aspects of the relationship.

Ring and Van de Ven (1992) proposed that informal contracts would serve as a substitute for formal contracts when trust is exhibited (Ring and Van de Ven 1992). Both manufacturers and materials suppliers ranked written contracts as low contributors to alliance success with a neutral mean response. Indicators of informal contracts such as

trust were viewed to be stronger contributors to alliance success. Case studies have provided evidence that formal written contracts can potentially hinder alliance practice (Frankel et al. 1996).

This leads to the following hypothesis:

**Hypothesis 5: The level of contract formality will have a significant and negative effect on satisfaction.**

### **3.5 Relationship Structure**

As a follow on to the basic model, the effects of coercion and contract formality on satisfaction are also interpreted in light of the relationship actually embarked upon by the parties. Aggregate data may not be meaningful in the basic model because the effects may operate differently depending on the type of relationship entered into. For instance, if the parties are engaged in a specialty contract, the size of the impact of contract formality on satisfaction may be smaller than if the parties are engaged in an alliance. In order to get a clear picture of the effects, each relationship will be classified according to the relationship types described in the following section. The model will then be analyzed to compare the effects between categories. The relationship categories are determined based on a cluster analysis reflecting the three criteria presented in the literature review. Due to the nature of the typology, the categories do not fit on to a continuum and the relationships will be treated as a categorical variable.



The factors that distinguish customer-supplier relationships have traditionally been modeled as a framework or continuum that compares and contrasts various types of interorganizational behavior (Gundlach and Murphy 1993). Transaction Cost Analysis conceptualizes relationships along a market to relationalism to hierarchy continuum (Williamson 1985). Heide (1994) developed a typology characterized by three ideal relationship forms: market, unilateral/hierarchical, and bilateral.

In a similar fashion, Gundlach and Murphy (1993) present a framework of relationships based upon the polar archetypes of discrete and relational exchange. Market government situations rely on market forces and typically entail single, short-term exchange events. These relationships are often characterized by traditional purchasing practices such as arm's length contracting and low levels of information exchange. In contrast, relational exchange involves transactions where the market forces do not play such a central role. Emphasis is placed upon purposeful cooperation as parties form a mutually agreed upon governance structure. These relationships can be governed either by informal agreements or more formal contractually centered agreements.

Cannon and Perreault (1999) treated relationship type as a categorical variable in their presentation of a relationship typology (Cannon and Perreault 1999). Their review of relationship typologies showed that prior conceptualizations had been based on the assumption that lower order factors are all highly correlated and can be combined to form an underlying relationship continuum that is unidimensional (i.e. Williamson's (1975)

market versus hierarchy). They modeled buyer-seller relationships as a simultaneous combination of six relationship connectors (dimensions that reflect the behaviors and expectations of behaviors in a particular buyer-seller relationship). This multidimensional conceptualization meant that the relationship types could be identified as clusters but not as points on a continuum.

The relationship framework utilized here attempts to add to the work of Cannon and Perreault (1999) and provide a finer grain classification system based on behaviors. Establishment of definitional parameters for commonly used relationship terms is of importance for both practitioners and academics. This dissertation uses a more recent relationship classification schema developed by Rinehart et al (2000). It is based on elements commonly found in the relationship literature, including the general constructs of trust between the parties, the level of interaction between the parties, and the commitment of the parties to the relationship. Each relationship reported by a participant was assessed based upon the participant's perception of the level of trust between the parties, the level of interaction between the parties, and the degree of commitment of the parties to the relationship. Each of these traits was measured based on a scale requesting responses from 1 to 7. The scores on each trait used to assign the relationship type appear in Table 3.1. These scores are based on prior work by Rinehart et. al.(2000) that utilized data collected from active relationship managers participating in relationship management seminars and Executive MBA programs to establish the classification framework.



While the dissertation obtained responses from undergraduate students, it was felt best to utilize the previously established scoring framework to assign the proper relationship type. Those results were derived from a cluster analysis conducted based upon responses provided for best, average and worst supplier-customer relationships according to the professionals.. This assured an adequate range of responses to maximize its theoretical contribution to the discipline and to reduce bias stemming from examining only good relationships. The seven-cluster solution was tested using discriminant analysis and was found to offer statistically significant distinct groups. These findings indicate that relationship differences do exist based on the dimensions of trust, interaction and commitment. A follow-up Delphi study secured management interpretation of the correct terms that should be applied to the relationships generated by the original analysis. The establishment of these terms enhances the existing theory of business-to-business relationships by testing portions of existing theory in a more integrated manner. A brief description of each relationship type and its key elements is presented in the following section.

**Table 3.1 Relationship Type Scoring Scheme**

Relationship Type	Trust	Information Share	Commitment
Non-Strategic	$\leq 4$	$\leq 4$	$\leq 7$
Administered	$\leq 7$	$> 4$	$> 4$
Contractual	4.0 to 5.5	3.0 to 5.5	3.0 to 4.0
Specialty Contract	$> 4$	$\leq 4$	$\leq 4$
Partnership	$> 4$	$\leq 4$	$> 4$
Joint Venture	$\leq 4$	$> 4$	$> 4$
Alliance	$> 4$	$> 4$	$> 4$

*Non-Strategic Transactions.* This was the most basic cluster and related very closely to market transactions as outlined in the marketing channels literature. They reflect the reality of economic based transactions where one or both parties feel little obligation to the other, often due to the existence of alternate sources of supply. These situations accounted for 16% of the relationships. Non-strategic transactions reflected low scores on the three elements of trust, interaction, and commitment. A good example of this type of relationship would be between a purchasing manager and a supplier of easily obtained MRO items.

*Administered Relationship.* These situations place a stronger emphasis on managing the relationship through non-formalized influence strategies. Some level of investment in the relationship is required to maintain the transaction flows. The scores attained are low in

the trust area while the scores are above the median on information sharing and commitment. They comprised 12% of total relationships. An example would be the relationship between a retailer and a distributor that assists the retailer with product merchandising.

*Contractual Relationship.* A broad range of activities is covered by these relationships that rank the highest in business volume. The need for formalized control over business activity is reflected in the contractual nature of the agreement. A formal contract reduces the need for direct communication between boundary-spanners. Contractual relationships are characterized by mid-range scores on all three elements and constituted 15% of the relationships. A franchise agreement would exemplify this type.

*Specialty Contract Relationship.* These are contracts for unique products or services. They rely on one-to-one interactions in addition to a reliance on trust based upon the capability of the supplier to perform the needed activity. Specialty contract relationships are high in trust, but reflect low levels of information sharing and commitment. They are the smallest segment in this research, comprising 4% of the relationships.

*Partnership.* This type of relationship tends to rate high on the trust factor and high on commitment, but below the median on business volume. They may or may not utilize the formalized control of a contract. Partnerships spanned a wide range of product-oriented transactions. They are typified by a supplier who provides a critical component to a

customer and delivers it on a weekly basis. 25% of the relationships were labeled partnerships.

*Joint Venture.* Some form of financial investment is generally associated with a joint venture. The perception of dependence by one party on the other is typically great in a joint venture. They are high in commitment and information sharing but low in trust. Only 6% of the relationships were joint ventures.

*Alliance.* Alliance relationships score highly on all three of the behaviors measured. They are differentiated from joint ventures by the greater level of trust existing in alliances instead of monetary investment. Alliances possess the highest levels of trust, interaction frequency, and commitment. They comprise 22% of the relationships in this study and firms generally reserve them for the most important items.

This research on relationship types only partially supports the continuum perspective appearing in the marketing channels literature. Non-strategic transactions, contractual relations, and strategic alliances represent a progression from limited trust, limited interaction frequency, and limited commitment to significant amounts of each between the parties. The other four relationship types, however, have properties that do not fit on the continuum. In essence, 48% of the relationships that are managed between suppliers and customers have properties that do not fit on a continuum. For that reason, the relationships established in the simulation will be treated as a categorical variable. The

effects of coercion on satisfaction and contract formality on satisfaction found in the model will be analyzed on a category-by-category basis.

### **3.6 Supplemental Hypotheses**

As a follow on to the results gained from the basic model, the regression coefficients of coercion and contract formality on satisfaction will be interpreted in light of the relationship actually embarked upon by the parties. This may be more useful than aggregate data because the regression coefficients found in the model may vary in size depending on the type of relationship into which the groups enter. In order to get a clear picture of this interaction, each relationship will be classified according to the relationship typology presented above and the regression coefficients will be analyzed to compare the effect sizes between relationship categories. The relationship categories are determined based on the previously discussed cluster analysis reflecting the attributes of trust, interaction, and commitment. Hypotheses concerning the variation of the effects will be developed below.

Very little research has been done that relates to these types of propositions and empirical research on channel communication is sparse. The work of Mohr and Nevin (1990) was directed toward understanding communication strategies and offers guidance in this area. They developed a contingency theory in which the level of channel outcomes obtained (i.e. satisfaction) is contingent upon an interaction between communication strategy and given channel conditions (i.e. relationship type). They worked from the premise that

communication in relational channel structures differs from communication in market channel structures. Relational structures, as defined by Macneil (1980), involve joint planning, a long-term orientation, and high interdependence while market (discrete) exchanges occur on an ad hoc basis, have a short-term orientation, and low interdependence.

More specifically, communication in relational channel structures has a higher frequency and exhibits more bi-directional flows, informal modes and indirect context (collaborative communication). On the other hand, communication in market channel structures has lower frequency and more unidirectional flows, formal modes, and direct context (autonomous communication). In situations where channel members are provided the necessary and expected communication for the existing channel conditions, members will experience enhanced outcomes such as satisfaction. Thus, a match has to occur between the type of relationship and the communication strategy in order to generate enhanced outcomes. Mohr and Nevin (1990) posit that collaborative communication strategies lead to enhanced outcomes in relational structures while autonomous communication strategies lead to enhanced outcomes with market structures.

The same type of match has to occur between the negotiation strategy implemented and the relationship type embarked upon. The facets of negotiation strategy utilized in the model, level of coercion and degree of contract formality, are very similar to the facets of communication strategy outlined by Mohr and Nevin (1990). The next sections will develop hypotheses concerning the interaction effect of relationship type on satisfaction.

The following table indicates the cells where enhanced outcomes were found in that study and form the logical basis for the hypotheses to follow.

**Figure 3.1 The Mohr and Nevin Matrix**

	<b>Communication Strategy</b>	
<b>Channel Conditions</b>	Collaborative	Autonomous
Relational Structures	A. Enhanced Outcomes	B.
Market Structures	C.	D. Enhanced Outcomes

### **3.6.1 Effect Size of Coercion on Satisfaction**

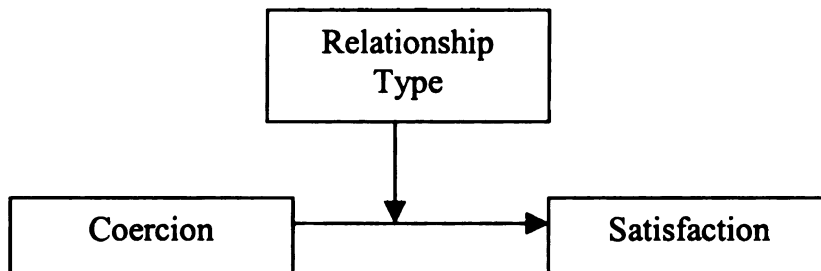
Earlier in this chapter, a negative effect of coercion on satisfaction was hypothesized. This overall effect, however, may vary according to the type of relationship entered. Each relationship reported on by the participants will be placed in a category based on the attributes of trust, interaction frequency, and commitment. The key attribute in this instance is interaction frequency because coercion is a low interaction frequency strategy.

It is proposed that the effect size (Beta) of coercion on satisfaction as represented by the regression coefficient will vary based on the relationship type.

Channel members in relational structures such as alliances interact more frequently because they need to share more information in order to coordinate more closely (Mohr and Nevin 1990). Conversely, members of market channels are commonly more independent and require lower frequency of communication. In the context of this dissertation, coercion reflects a low frequency strategy that requires very little communication. It is very efficient and requires less effort and resources than non-coercive techniques. The use of coercion in an alliance would constitute a mismatch because alliances typically require a high level of interaction. The use of coercion in non-strategic transactions, on the other hand, would generate enhanced outcomes (or a less negative effect) because it constitutes a match between negotiation strategies and the needs and expectations of the parties. Coercion is a low interaction frequency strategy, so it will have its least negative effect in a non-strategic transaction situation. Alliances rank highest in interaction frequency, however, so the negative effect will be greater. In other words, the negative impact of coercion on satisfaction will be greater in alliances than in non-strategic transactions.

Thus, it is posited that satisfaction is a function of coercion and the interaction of coercion and relationship type. The main effect of coercion on satisfaction is represented by the regression coefficient.





**Hypothesis 4a: Given that support is found for H4 (the level of coercion implemented in the negotiation will have a significant and negative effect on the degree of satisfaction), the size of the regression coefficients will be significantly different amongst the relationship categories. For example, the size of the regression coefficient for Non-Strategic Transactions will be significantly smaller than the size of the regression coefficient for Alliances.**

### **3.6.2 Effect Size of Contract Formality on Satisfaction**

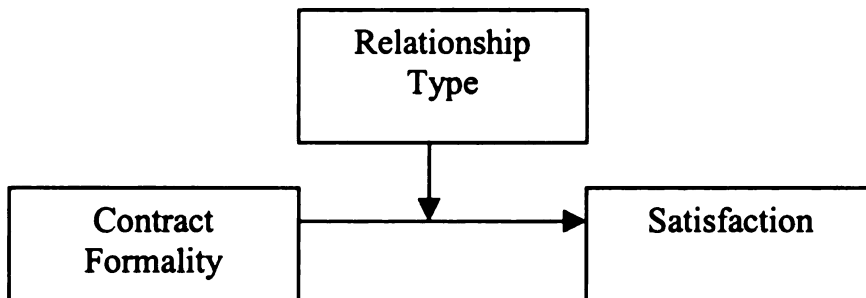
A similar interaction is postulated concerning the negative effect of contract formality on satisfaction that was hypothesized earlier. Again, this overall effect may vary according to the type of relationship entered. The key attribute in this instance is trust because a high degree of contract formality is often utilized when there is lack of trust between the

parties. Ring and Van de Ven (1992) asserted that informal contracts would serve as a substitute for formal contracts when trust is exhibited. It is proposed here that the effect size (Beta) of contract formality on satisfaction as represented by the regression coefficient will vary based on the relationship type.

Channel members in relational structures such as alliances tend to rely on more informal modes of communication because their tighter, more intimate linkages allow for more informal interactions (Mohr and Nevin 1990). Conversely, members of market channels are commonly less tightly linked and tend to use more formal modes of communication. In the context of this dissertation, contract formality reflects a formalized style of communication. Again, in situations where channel members are provided the necessary and expected communication for channel conditions, members will experience enhanced outcomes.

A high degree of contract formality in an alliance would constitute a mismatch because alliances typically require less formality due to their more intimate ties that are often based on a high degree of trust. The use formal contracts in non-strategic transactions, on the other hand, would generate enhanced outcomes (or a less negative effect) because they constitutes a match between negotiation strategy and the needs and expectations of the parties. Contract formality takes place in the absence of trust so it will have its least negative effect in a non-strategic transaction situation because they rank low on the trust attribute. Groups in relationships that are low on trust will feel a greater need to rely on the formality of the contract itself. Alliances rank highest in trust, however, so the

negative effect will be greater. The negative impact of contract formality on satisfaction will be greater in alliances than in non-strategic transactions.



**Hypothesis 5a:** Given that support is found for H5 (the level of contract formality will have a significant and negative effect on satisfaction), the size of the regression coefficients will be significantly different amongst the relationship categories. For example, the size of the regression coefficient for Non-Strategic Transactions will be significantly smaller than the size of the regression coefficient for Alliances.

### **3.7 Data Analysis**

A multi-step approach to data analysis will be adopted in this dissertation. A preliminary analysis will examine the qualities of the data and measurement sufficiency. This will be followed by a description of the methods to be used in testing the study's hypotheses.

### **3.7.1 Preliminary Analysis**

Prior to examining the research questions and testing the hypotheses, the adequacy of the sample, descriptive statistics for all variables, measurement reliability and construct validity will be assessed. Each of these assessments receives treatment in the sections below.

### **3.7.2 Sample Adequacy**

The size of the sample has a direct impact on the appropriateness and the statistical power of multiple regression analysis. The number of cases in this simulation totaled up to 264. According to Cohen and Cohen (1983), this will be sufficient to provide the recommended power level of .80 while detecting  $r$  values as small as .20 at a significance level of .05. The significance level of .05 will apply to the full sample as well as each segment of the sample for multiple group analysis.

### **3.7.3 Descriptive Statistics**

Descriptive statistics include means, standard deviations, score ranges and measures of kurtosis for all continuous variables. Frequencies will be presented for the relationship types because they are categorical variables. Assessments of univariate and multivariate normality will also be included to insure the proper estimation technique is utilized.

### **3.7.4 Measurement Reliability**

Reliability refers to the consistency, precision, and repeatability of a measuring instrument (Kerlinger 1986; Kline 1998). An instrument becomes precise by minimizing the amount of error in measurement. The content of a measure should not be so heterogeneous that it introduces inconsistency in subjects' responses. The most common estimate of reliability is to calculate the internal consistency, or correlation among measurement items. The most prevalent method of measuring reliability is Cronbach's alpha (1951). Construct measurements that exceed a level of .70 for the Cronbach's alpha are commonly thought to be acceptable due to high internal consistency (Nunnally 1978). The measurement model will be purified by dropping items with low item-construct correlations and coefficient alphas will be recalculated.

### **3.7.5 Construct Validity**

The assessment of construct validity is a more thorough evaluation of a construct's operationalization than measurement reliability. The basic question is "Are we measuring what we think we are measuring?" (Kerlinger 1986). Construct validity concerns whether an indicator actually measures the construct the researcher believes it does.

Peter (1981) emphasizes that construct validity should be assessed by examining its traits. Construct traits include internal consistency (discussed above in reliability section), convergence, and discriminability (Peter 1981).

Convergence means “evidence from different sources gathered in different ways all indicates the same or similar meaning of the construct (Kerlinger 1986 p 421). In order to have convergent validity, the construct should mean the same thing to different people in different places. A set of indicators presumed to measure the same construct shows convergent validity if their intercorrelations are at least moderate in magnitude. When factor loadings demonstrate that measurement items load significantly on their latent variables, one has support for convergent validity. Anderson suggests using the Confirmatory Factor Analysis (CFA) approach to assess the convergent validity (Anderson 1987).

Discriminant validity refers to the distinctiveness of the factors measured by different sets of indicators. Variables that are conceptualized differently should be empirically differentiable. Discriminant validity is supported when a variable does not correlate with another from which it should differ (Peter 1981). One test of the discriminant validity of two latent variables is whether the causal path coefficient relating them is significantly less than one (Burnkrant and Page 1982). If it is less than one, then discriminant validity is demonstrated.

When support for all three traits (reliability, convergent validity, and discriminant validity) is apparent, one has support for the unidimensionality of the construct (Anderson and Gerbing 1982). It is imperative that issues of measurement soundness be resolved prior to testing the hypotheses measurement issues represent the foundation of any empirical study.

### **3.7.6 Hypothesis Tests**

Consistent with the manner in which the hypotheses have been presented, this section on hypothesis testing will consist of two parts. In Part 1, several different techniques are used to assess H1 through H5 concerning the basic model. To test the proposed model of antecedents and consequences of negotiation strategy implementation, correlation analysis, multiple regression, and structural equation modeling will be employed.

Correlation analysis simply assesses the relationship between two variables without controlling for the effects of other variables. It is particularly useful in exploring relationships that were not hypothesized. Multiple regression analysis is a more sophisticated technique that evaluates the impact of several variables on a given dependent variable. In contrast to simple correlation analysis, all other variables included in the model are controlled for when examining the relationships between the dependent and any one variable. Given the present form of the hypotheses, regression analysis is an appropriate method to test the direction and strength of the links in the basic model. All of the constructs are represented by interval data and the sample size, as discussed above,

is acceptable for regression. These analyses will take place as each stage of the simulation is completed. Lastly, the path model in its entirety will be estimated by using structural equation modeling..

A second set of tests will also be addressed. These are not fundamental to the basic model but could reveal additional interesting information. Each relationship will be categorized into one of the seven relationship types established by Rinehart et al (2000) according to the results of the relationship scale. The regression coefficients relating coercion to satisfaction and contract formality to satisfaction will then be compared between groups based on relationship type. Individual regressions will be run using samples consisting of the cases from each relationship type and a regression coefficient will be calculated for each relationship type. The regression coefficients will then be compared using their standard errors and confidence intervals (Cohen and Cohen 1983,p. 109). This method determines whether the two independent (i.e. coming from different samples) regression coefficients are equal by utilizing their respective standard errors. Two supplementary hypotheses have been posited that can be tested by this method. This analysis is appropriate for inquiries of model or parameter stability across settings and samples. The number of cases falling into each category, however, will not be known until the simulation is completed so issues of statistical power will be addressed at that time.



### **3.8 Conclusion**

This chapter provided an overview of the research design and method of the study. The framework of the negotiation simulation and the gathering of the data were discussed. A discussion of the research questions and hypotheses was followed by an outline of the preliminary analysis hypothesis testing. Specific measurement scales are listed in Appendix B.

## **CHAPTER 4: ANALYSIS OF DATA**

This chapter presents the results of the research. The first section discusses the preliminary analyses that assess the sample characteristics and measurement validation. This discussion is followed by tests of the hypotheses. Each research question is presented with its associated hypotheses.

### **4.1 Introduction**

A multi-step approach to data analysis is adopted in this research. First, the descriptive statistics for all scale items are calculated and potential non-normality problems are assessed. Second, the reliability of the constructs pertaining to dependence, cooperativeness, coerciveness, contract formality, and satisfaction are evaluated and the measurement model is purified. Third, tests of the research hypotheses are conducted through correlation analysis, regression analysis, and path analysis.

Two basic questions are answered in this chapter:

- 1) Were the proposed constructs measured validly?
- 2) Were the hypotheses supported by the data?

#### **4.1.1 Characteristics of the Sample**

This section examines characteristics of the sample. As prescribed in Chapter Three, surveys were distributed to students at a large midwestern university. The information

was collected at three points in time during the negotiation in order to uncover the dynamics of the negotiation process:

- 1) Before the beginning of negotiation preparation to assess the participants predispositions and perceptions of the environment.
- 2) After the group preparation of a negotiation strategy and execution of that strategy.
- 3) After completion of the simulation when final results relative to the other groups are known.

The participants were able to enter negotiations with another group at time 1 or time 2 and were allowed to discontinue after time 1 or time 2. Some participants started to work with another party but broke off discussions before negotiations were concluded and others initiated negotiations later in the simulation. The purpose of the research was to look into the behaviors of the participants throughout the course of the negotiation so the analyses of the hypotheses were performed only on cases including participation in all phases of the simulation (i.e. time1, time 2, and time 3). This resulted in a total of 264 cases that can be followed from beginning to end.

There is some concern that this subset of cases may bias the results of the study. Those who carried out the negotiation to the end may have a different set of characteristics than those who dropped out early or those who entered discussions late. For instance, those who felt they were extremely dependent on the other party might have been inclined to drop out early. In order to analyze this type of possibility, the cases were segmented into

groups based on the extent of their participation in the simulation. T-tests were then performed to see if there were any differences in the characteristics of these groups. The groups were broken out as follows:

1	Present at time 1 only
2	Present at time 1 and 2 only
3	Present at time 1, 2, and 3
4	Present at time 2 only
5	Present at time 2 and 3 only

T-test comparisons of means were then performed on for the constructs that were available at the time each group was still involved in the negotiation. The only pair that showed a significant difference on any construct was the mean on dependence between group 2 and group 3. The remainder of the t-tests indicated that there was very little difference in the characteristics found in each subsample so it is concluded that the extent of negotiation is not a source of bias. The means on the applicable constructs appear in the following table.

GROUP	SIZE N=736	DEP	COOP	COERCE	FORM	SAT
1	167	4.04	3.68	NA	NA	NA
2	88	4.24	3.70	3.15	4.51	NA
3	278	3.91	3.59	3.02	4.37	4.50
4	39	NA	NA	3.15	4.37	NA
5	164	NA	NA	3.14	4.56	4.46

## 4.2 Measurement Validation

As discussed in Chapter Three, assessments of the measurement model and satisfaction with its soundness precede any tests of hypotheses. Critical among the assessments of measurement model soundness are evaluations of measurement reliability and construct validity. This section reports the measurement qualities of the data set for the negotiation simulation across the full sample of 264 cases. Each case represents a relationship entered into by a participant and reflects that participant's perceptions. The participants were seniors at a major midwestern university.

## 4.3 Data Quality and Reliability of Constructs

To assess data quality, the means, standard deviations, kurtosis, and skewness of each item were computed. These were obtained from a Confirmatory Factor Analysis utilizing EQS software. An overview of the univariate and multivariate characteristics of the data

serve as a prelude to an assessment of the measurement scales' reliability and validity. The key concern with the data was its conformity to a normal distribution for both univariate and multivariate cases. This is of concern because the choice of estimation method in both the measurement model and the path model could be influenced by these evaluations. The estimation technique of first choice, Maximum Likelihood (ML), is sensitive to violations of normality so this evaluation is needed. The assumption is that multivariate normality is desired and this requires univariate normality.

#### **4.3.1 Univariate Descriptives**

The descriptive statistics reported by the Confirmatory Factor Analysis include the mean, standard deviation, range (minimum and maximum values), skewness, and kurtosis. Table 4.1 below reports the descriptive statistics for each of the study's 17 measurement items.

In the first column the variable names for each item are listed. The specific wording of each variable appears in Table 4.2. The second column contains the means from the seven point scales used to measure the respondent's perceptions. Column three displays the standard deviations associated with each variable while columns four and five show the range of responses for each item. Skewness and kurtosis of each item are shown in columns six and seven.

The table illustrates that the variables are normal with means of approximately 4.00 (across the seven-point scales) and low values for skewness and kurtosis. Univariate

normality was supported in each instance with no extreme cases of kurtosis (over 3) or skewness (over 7) (Kline 1998). The largest kurtosis value was  $-1.0943$ , which is well below the recommended cutoff of 3.0. The largest skewness value was  $-0.7782$ , which is safely below the cutoff of 7.0. The skewness and kurtosis of the items provide no indication that the variables used in this research are distributed non-normally, so an assessment of multivariate normality can proceed. Univariate normality is a necessary, but not sufficient, condition of multivariate normality (West et al. 1994).

**Table 4.1 Descriptive Statistics From CFA**

<b>Item</b>	<b>Mean</b>	<b>Std. Dev.</b>	<b>Min.</b>	<b>Max.</b>	<b>Skewness</b>	<b>Kurtosis</b>
PDEP1R	4.55	1.29	1	7	-0.0419	-0.2540
PDEP2R	4.13	1.31	1	7	-0.2186	0.0966
PDEP3R	3.75	1.37	1	7	0.2523	-0.5261
PCOOP6	3.77	1.25	1	7	-0.4439	0.3199
PCOOP7	3.51	1.38	1	7	-0.2957	-0.6223
PCOOP9	3.41	1.40	1	7	0.0415	-0.2655
PCRC2	3.30	1.38	1	7	0.1925	-0.4971
PCRC4	2.80	1.47	1	7	0.4520	-0.8169
PCRC5	3.42	1.44	1	7	-0.1220	-0.9044
PCRC6	2.62	1.44	1	7	0.5135	-0.5851
PFORM1R	4.18	1.63	1	7	-0.0744	-0.7708
PFORM2R	4.32	1.44	1	7	-0.2436	-0.4041
PFORM3R	4.56	1.70	1	7	-0.4458	-0.6507
PFORM4R	4.47	1.63	1	7	-0.2315	-0.6830
PSAT2R	4.96	1.51	1	7	0.7058	0.3081
PSAT3	4.81	1.52	1	7	-0.6972	-0.0219
PSAT5	4.39	1.39	1	7	-0.2744	0.1004

#### **4.3.2 Multivariate Normality**

The Mardia coefficient is a measure of multivariate normality (Mardia 1970; Mardia 1974) that is calculated by Bentler's EQS software (Bentler 1997). While there is no exact definition of what is too large, the obtained value of 41.1407 with a normalized estimate of 13.15 is considered acceptable. The model was run again using the Robust method and the results were consistent with those of the maximum likelihood method. The CFI improved slightly, from 0.941 to 0.956 so the model was not greatly affected by



non-normality. Therefore, the data is suitable for the use of the maximum likelihood method of estimation for model fit.

#### **4.4 Measurement Reliability**

As stated in Chapter Three, reliability refers to the “accuracy or precision of a measuring instrument” (Kerlinger 1986). Reliability as demonstrated by internal consistency essentially asks: “Are these measurement items measuring the same thing?” Each construct appearing in the model was measured by multiple items in the questionnaire. Table 4.2 presents the Cronbach’s alpha coefficients as estimates of reliability.

Systematic tests were undertaken to refine and validate the scales. The item-to-total correlation for each of the items in the proposed scales was examined following the suggestions of Churchill (Churchill 1979) and Gerbing and Anderson (Gerbing and Anderson 1988). Low correlations were eliminated if they did not contribute to the construct’s explanation or provide additional insight into the domain of interest. To assess the reliability of the constructs, a coefficient alpha was computed for each construct (Cronbach 1951). After purifying the measurement model by dropping items with low item-to-construct correlations, all recalculated coefficient alphas were found to be adequate. The five constructs in the model that utilize multi-item scales in their measurement have Cronbach alphas ranging in value from 0.7150 to 0.7690 – all above Nunnally’s commonly cited cutoff of 0.70 (Nunnally 1978). These constructs demonstrate reliability as a result of their high levels of internal consistency. Table 4.2 presents Cronbach alpha coefficients as estimates of reliability as well as the item-to-

construct correlations. The alpha for trust is also included because, although it is not part of the model, it was used in the determination of relationship type. The single item measures of information sharing and commitment were also used only to determine relationship type and reflect the nature of the latent variable to a substantial degree.

**TABLE 4.2 MEASUREMENT RELIABILITIES**

REF.	CONSTRUCT AND SCALE	Item-to-Total Corr.	Alpha
PDEP1R	DEPENDENCE How dependent are you on this supplier/customer for this product/service?	0.663	0.8034
PDEP2R	If the other party were no longer available as a channel participant, what effect would this have on your business?	0.760	
PDEP3R	How difficult would it be to replace the other party with another supplier/customer?	0.732	
PCOOP6	COOPERATIVENESS I can't afford to worry about other party's profits if my firm is to remain competitive in its own markets.	0.701	0.7325
PCOOP7	I look out for my firm; other firms have to look out for themselves.	0.635	
PCOOP9	My job is to obtain the lowest possible total cost to my firm whether or not the other party will be able to make a profit on the deal.	0.626	
PCRC2	COERCION How often did your team twist the other party's arm in order to obtain their agreement on an issue?	0.520	0.7392
PCRC4	How often did your team threaten to give competitors preference over the other party in negotiations?	0.578	
PCRC5	In order to get the other party to agree on an issue, how often did your team demand that they comply on that issue?	0.575	
PCRC6	In order to get the other party to agree on an issue, how often did your team indicate that your personal relationship would worsen if they did not comply on that issue?	0.571	

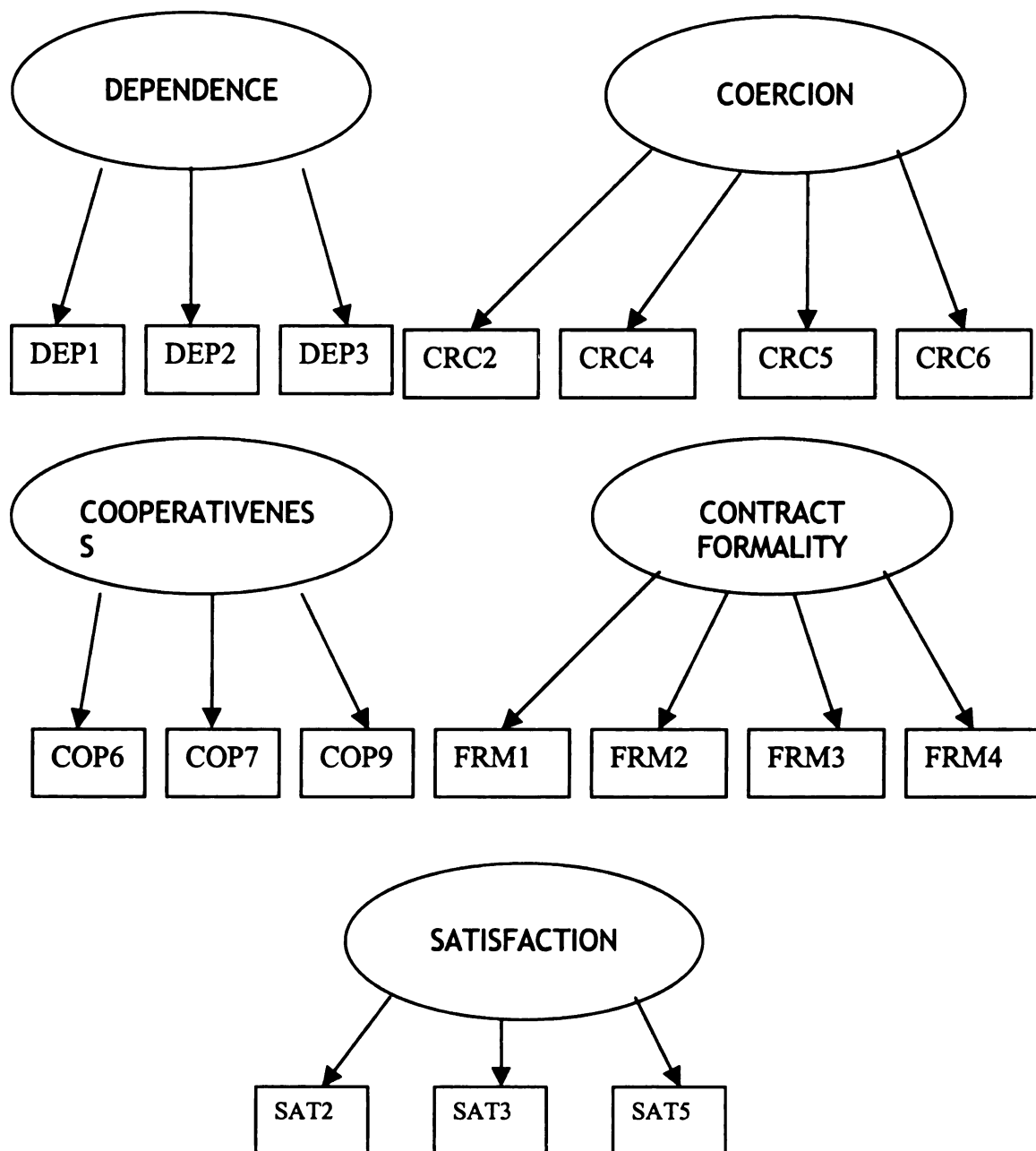
	<b>CONTRACT FORMALITY</b>		
PFORM1R	The terms of our relationship have been written down in detail.	0.699	0.8289
PFORM2R	Our expectations of the other party have been communicated in great detail.	0.728	
PFORM4R	In coordinating our activities with the other party, formal contractual terms have been developed.	0.671	
PFORM4R	The terms of our relationship with the other party have been explicitly verbalized and discussed.	0.564	
	<b>SATISFACTION</b>		
PSAT2R	Our firm's working relationship with this party has been an unhappy one.	0.682	0.7595
PSAT3	The other party is a good company to do business with.	0.711	
PSAT5	This relationship meets or exceeds our expectations.	0.634	
	<b>RELATIONSHIP ASSESSMENT MEASURES</b>		
	<b>TRUST</b>		
PREL1	The other party did not mislead us during the discussions in this negotiation.	0.819	0.8668
PREL2	I am confident the other party did not take advantage of us in this negotiation.	0.852	
PREL4	The other party was flexible when considering the range of solutions necessary to come to a mutual agreement.	0.706	
	<b>INFORMATION SHARING</b>		
PREL6	Please indicate HOW MUCH INFORMATION you shared with the other party during the duration of this agreement.	NONE	NONE
	<b>COMMITMENT</b>		
PREL8	We need this relationship with the other party to accomplish our organizational objectives.	NONE	NONE

**Table 4.3 Correlations Among Indicator Variables**

	DEP1	DEP2	DEP3	COP6	COP7	COP9	CRC2	CRC4	CRC5
DEP1	-								
DEP2	.562**	-							
DEP3	.526**	.642**	-						
COOP6	-.024	-.003	.024	-					
COOP7	-.177**	-.102	-.043	.513**	-				
COOP9	-.081	-.027	.040	.502**	.427**	-			
CRC2	.001	.040	-.027	-.134*	-.048	-.058	-		
CRC4	-.009	-.003	-.098	-.164**	-.072	-.105*	.405**	-	
CRC5	.152**	.117*	.003	-.078	.025	-.094	.406**	.418**	-
CRC6	.150**	.078	.105*	-.168**	-.085	-.095	.372**	.445**	.440**
FORM1	-.034	.012	-.035	.125*	.091	-.019	-.027	-.102*	-.021
FORM2	-.071	-.055	-.011	.204**	.140*	.068	-.035	-.111*	.031
FORM3	.005	.070	.010	.243**	.107*	-.009	-.042	-.095	-.027
FORM4	-.062	.016	-.023	.086	-.032	-.078	.030	-.070	-.077
SAT2	.075	.047	.063	-.089	-.088	.027	-.134*	-.144**	-.200**
SAT3	.097	-.043	.076	-.145**	-.005	.000	-.105	-.078	-.099
SAT5	-.003	-.005	.022	-.206**	-.173**	-.144	-.025	-.028	-.128*

	CRC6	FM1	FM2	FM3	FM4	SAT2	SAT3	SAT5
DEP1								
DEP2								
DEP3								
COOP6								
COOP7								
COOP9								
CRC2								
CRC4								
CRC5								
CRC6	-							
FORM1	.011	-						
FORM2	.003	.645**	-					
FORM3	-.040	.588**	.590**	-				
FORM4	-.092	.477**	.527**	.489**	-			
SAT2	-.216**	.044	.032	.042	.095	-		
SAT3	-.126*	-.041	.136*	.016	.003	.559**	-	
SAT5	-.102*	.011	.053	.030	.074	.472**	.506**	-

**Figure 4.1 THE MEASUREMENT MODEL**



## **4.5 Construct Validity**

Whereas reliability assesses the precision in measurement, validity asks whether we are measuring what we think we are measuring (Kerlinger 1986). Construct validity is the extent to which a set of items properly represents the concept under study. A thorough evaluation of the measurement model's construct validity was performed using Confirmatory Factor Analysis (CFA) as suggested by Anderson (Anderson 1987). The measurement model tested appears in Appendix 3. Table 4.3 presents zero-order correlations among indicator variables as a preliminary assessment of construct validity. It should be mentioned that PSAT2R is potentially a problem measure because it correlates very highly with all four measures of coercion.

The primary outputs of the CFA are the assessments of measurement model fit. The traditional chi-square test indicates how well the model-implied covariance matches the covariances found among the measured variables in the sample data (Hayduk 1987; Bollen 1989). Given the sensitivity of the chi-square estimate to biases such as model complexity and sample size, researchers have developed an array of complementary goodness-of-fit assumptions (Hu and Bentler 1994). Values exceeding 0.90 are generally considered acceptable for these indices (Bagozzi and Yi 1988). According to Bentler, the CFI should be the index of choice (Bentler 1990). Table 4.4 reports the fit statistics for the measurement model applied to the full sample of respondents who replied to the sequence of three surveys.

**TABLE 4.4 Fit Statistics for the Measurement Model**

<b>ML ESTIMATE N=264</b>		
CHI-SQUARE	177.01	p<.001
NORMED CHI-SQUARE	1.63	(df = 109)
BBNFI	0.877	
BBNNFI	0.935	
CFI	0.948	
Bollen (IFI)	0.949	
RMSEA	0.049	
90% Confidence Interval of RMSEA	0.035 to 0.061	

The maximum likelihood estimation procedure demonstrates acceptable fit according to the array of fit indices. The normed chi-square estimate of 1.63 meets the 2:1 ratio for parsimonious fit. Acceptable fits are also suggested by across three fit indices (BBNNFI, CFI, IFI), given values exceeding the 0.90 standard. Most importantly, the CFI of 0.948 is comfortably above the cutoff. Additionally, the root mean squared error of approximation (RMSEA) falls below 0.05 and thus is considered acceptable (Hair et al. 1998). All of these results indicate good model fit.

Further analysis of the CFA provides assessment of convergent and discriminant validities. By definition, convergent validity indicates that “evidence from different sources gathered in different ways all indicates the same or similar meaning of the construct” (Kerlinger 1986). Primary assessments of convergent validity include an overview of the CFA factor loadings (lambdas) and modification indices. Table 4.5 reports the standardized factor loadings and t-values for the measurement model. The parameter column in the table refers to the factor loading of the measurement item to its

respective factor. The magnitude of the loadings and the associated t-values indicate that the items load heavily on their hypothesized factors given that they are all significant at 0.05 level of significance and possess t-values exceeding 1.96.

**Table 4.5 Confirmatory Factor Analysis for Measurement Model**

<b>PARAMETER</b>	<b>FACTOR LOADINGS</b>	<b>t-Value</b>	<b>STD. LAMDA</b>
PDEP1R	0.877	11.322	0.679
PDEP2R	1.080	13.889	0.828
PDEP3R	1.061	12.961	0.774
PCOOP6	1.071	12.584	0.813
PCOOP7	0.842	9.310	0.640
PCOOP9	0.830	9.038	0.623
PCRC2	0.812	9.024	0.596
PCRC4	0.957	10.078	0.660
PCRC5	0.940	10.111	0.655
PCRC6	0.973	10.462	0.668
PFORM1R	1.275	13.868	0.781
PFORM2R	1.177	14.865	0.819
PFORM3R	1.264	13.031	0.742
PFORM4R	1.034	10.629	0.634
PSAT2R	1.113	11.641	0.739
PSAT3	1.143	11.888	0.762
PSAT5	0.917	10.448	0.648

The Lagrange Multiplier (LM) Test, a modification index, was then used to identify potential improvements in model fit resulting from measurement respecification, or the reassignment of items to factors. The LM test showed that the model could be improved through respecification but none of these changes could be supported nomologically.



The suggested changes either moved backward in time or ran counter to a priori characterizations of the construct. Thus, the preponderance of significant loadings and rational assessments of modification indices provide considerable support for convergent validity.

Discriminant validity refers to the differentiation among constructs that may be similar (Kerlinger 1986). Support for discriminant validity can be found by examining the correlations among independent variables. It must be determined whether the confidence interval ( $\pm 2$  Std. Errors) around the correlation ( $\phi$ ) between the construct factors includes one. Discriminant validity among the constructs is supported if one is not contained in the confidence interval (Anderson and Gerbing 1988). None of the confidence intervals in these data contain one, so discriminant validity is supported.

Content validity is the assessment of the correspondence of the variables to be used in a summated scale and its conceptual definition (Hair et al. 1998). It is demonstrated in Structural Equation Modeling by the standardized solution (standardized  $\lambda$ s). All factors load at 0.592 or above (as shown in Table 4.5) which safely exceeds the minimum recommended value of 0.500 so content validity is supported.

A final estimation of validity is nomological validity. Nomological validity assesses how well the summated scale makes accurate predictions of other concepts in the theoretically based model (Hair et al. 1998). To a large extent, nomological validity is a judgment call (Kerlinger 1986). All constructs have been established in the literature and

a review of the correlations between the constructs shows basic support for the nomological validity of the model.

Given a sound overall assessment of the measurement model, the testing of the hypotheses can now be performed.

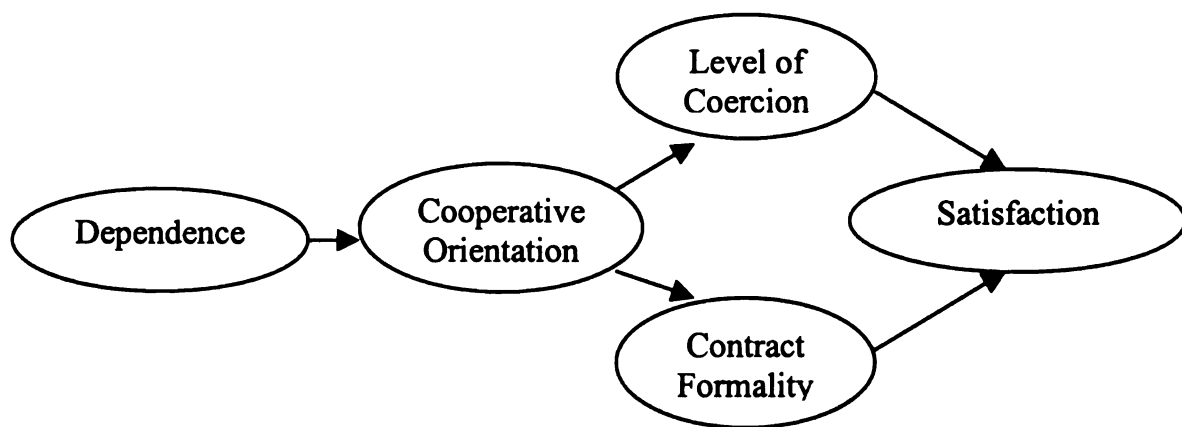
#### **4.6 Hypothesis Tests**

This section presents the results of primary interest in the study. As previously discussed, correlation analysis, multiple regression, and path analysis will be used to evaluate the hypotheses. Each research question is restated below with its accompanying hypotheses and results. To review briefly, the first set of research questions (H1 thru H5) trace the antecedents and consequences of the negotiation strategies and is based primarily on the Political Economy Paradigm (PEP). The second set of research questions (H4a and H5a) compare the effect sizes of negotiation strategies on satisfaction in the context of the type of relationship established. This section proceeds by examining each hypothesis in detail.

The proposed model appears again in Figure 4.2. A structural equation modeling approach will be used to assess the model's overall goodness of fit using the same criteria outlined above in the CFA. While the CFA focused on the measurement model, this analysis focuses on the full model – a combination of the measurement and structural models. The structural model refers to the hypothesized relationships among latent constructs. These relationships are represented by hypotheses H1 through H5. The hypotheses indicate the anticipated presence and direction of effects associated with the

various model relationships. In order to support each hypothesis, the full model must first demonstrate acceptable goodness of fit per the criteria above. Given acceptable model fit, the parameter estimates (gamma or beta regression weights) attached to the paths of hypothesized relationships must have the anticipated sign (positive or negative) and be significantly different from zero (as indicated by a t-value greater than 1.96 at an alpha level of 0.05).

**Figure 4.2 The Base Model**



The model proposed in Figure 4.2 obtained the goodness-of-fit statistics reported in Table 4.6 below. These statistics are based on the maximum likelihood estimation method. The normed chi-square is 1.68, showing a parsimonious fit. The BBNNFI, CFI, and IFI all exceed the recommended level of .90, which demonstrates acceptable fit. Again, the CFI is the most important measure and it stands at .941. Given this preponderance of

evidence, the model seems to fit the data soundly and suggests that one may continue by examining the model paths that represent the hypotheses. Each hypothesis will be examined in order.

**Table 4-6 Fit Statistics for the Full Model**

MEASURE	ML ESTIMATE	
CHI-SQUARE	191.044	p<.001
NORMED CHI-SQUARE	1.680	(df = 147)
BBNFI	0.868	
BBNNFI	0.930	
CFI	0.941	
Bollen (IFI)	0.942	
RMSEA	0.051	
90% Confidence Interval of RMSEA	0.038 to 0.063	

Table 4.7 below presents the results of the full model analysis. The left side of the table reports the factor loadings of the measurement model while the right side illustrates the gamma and beta regression weights attached to the model's hypothesized paths. T-values over 1.96 are significant. Please refer to the measurement model (Figure 4.1) above for an illustration of which factors these variables load on.

**Table 4.7 Parameter Estimates for the Full Model**

<b>MEASUREMENT MODEL</b>			<b>STRUCTURAL MODEL</b>		
<b>PARAMETER</b>	<b>STD. EST.</b>	<b>T- VALUE</b>	<b>PARAMETER</b>	<b>STD. EST.</b>	<b>T-VALUE</b>
PDEP1R	---a	---a	F2-F1 DEP-COOP	-0.059	-0.658
PDEP2R	1.239	9.859	F3-F2 COOP-CRC	-0.167	-2.453
PDEP3R	1.213	9.921	F4-F2 COOP-FORM	0.263	2.676
PCOOP6	---a	---a	F5-F3 CRC-SAT	-0.327	-2.818
PCOOP7	0.868	7.519	F5-F4 FORM-SAT	0.045	0.688
PCOOP9	0.857	7.447			
PCRC2	---a	---a			
PCRC4	1.184	7.254			
PCRC5	1.150	7.226			
PCRC6	1.178	7.294			
PFORM1R	---a	---a			
PFORM2R	0.920	12.388			
PFORM3R	0.989	11.512			
PFORM4R	0.808	9.789			
PSAT2R	---a	---a			
PSAT3	1.036	8.598			
PSAT5	0.804	8.380			

a-values for these parameters are not available since they were fixed for scaling purposes.

In Part 1, the testing of the proposed model of antecedents and consequences of negotiation strategy implementation (H1 thru H5) is accomplished by correlation

analysis, multiple regression and path analysis. Decisions to support or refute the hypotheses in Part 1 will be based on the applicable combination of analyses. In Part 2, a regression technique is used to evaluate the differences in effect sizes found in groups based upon relationship types.

#### **4.6.1 Hypothesis Testing—Part 1**

**Hypothesis 1: The perceived level of dependence will have a significant and positive effect on cooperative orientation.**

It is hypothesized that, consistent with Stern and Reve's (1980) Political Economy Paradigm, the more dependent a group is on the other party, the more they will desire to act cooperatively. Correlation analysis found a negative (-.064) but not significant ( $p=.150$ ) relationship between dependence and cooperativeness. The path analysis provided an estimate of -0.059 for the F1-F2 parameters and a t-value of -0.658, which fails to provide support for this hypothesis. The t-value does not exceed the t-critical value of 1.96 to demonstrate significance at an alpha level of 0.05.

**Hypothesis 2: The cooperative orientation of the negotiator will have a significant and negative effect on the level of coercion used in negotiation.**

This assertion is again based on the PEP, especially the work of Graham (1987) demonstrating that elements such as cooperativeness are established before the

negotiation begins and will have an impact on negotiation strategy. Following the temporal sequence of events in the negotiation process, this dissertation posits that the cooperative orientation of the negotiator is established after dependence has been assessed and that it will influence the level of coercion present in the negotiation. This assertion was borne out by the regression analysis ( $R = -0.146$  and  $p=0.001$ ). Thus the hypothesis is supported.

The path analysis confirms the negative direction of the F2-F3 relationship ( $-0.167$ ) and it does exhibit a significant t-value ( $-2.543$ ). The data support the assertion that negotiators possessing a higher degree of cooperativeness will tend to avoid coercive type negotiation strategies.

**Hypothesis 3: The cooperative orientation of the negotiator will have a significant and negative effect on the degree of contract formality used.**

This assertion is also based on the PEP and the work of Graham demonstrating that elements such as cooperativeness are established before the negotiation begins and will have an impact on negotiation strategy. Following the temporal sequence of events in the negotiation process it was posited that the cooperative orientation of the negotiator is established after dependence has been assessed and that it will influence degree of contract formality required by the parties. Correlation analysis reveals a significant ( $r = 0.110$ ,  $p=0.05$ ) but positive relationship between cooperativeness and contract formality. The path analysis confirms the positive direction of the F2-F4 relationship ( $+0.263$ ) with

a significant t-value (2.676). The cooperativeness of the party did not lead to a lesser degree of formality in the contract as hypothesized. Thus, the hypothesis was not supported.

**Hypothesis 4: The level of coercion implemented in the negotiation will have a significant and negative effect on the degree of satisfaction.**

Channel power base research has consistently demonstrated that the use of coercive power results in more negative target attitudes than the use of expert, referent or information power. Regression analysis yielded a negative (0-.189) and significant ( $p=.001$ ) relationship between coercion and satisfaction.

Path analysis confirmed this with a beta of -0.327 and a t-value of -2.818. This supports the contention that the use of coercion will have a negative effect on satisfaction.

**Hypothesis 5: The level of contract formality will have a significant and negative effect on satisfaction.**

As suggested by the PEP, bureaucratic control strategies such as formalization often create negative sentiments in channels. This hypothesis was not supported by regression analysis. The direction was the opposite of the hypothesis (+0.079) and not significant ( $p=.120$ ). Similarly, path analysis showed no significance with a beta of 0.045 and a t-value of 0.688.



**Table 4-8 Base Model Hypothesis Findings**

<b>HYPOTHESIS</b>	<b>MODEL PATH</b>	<b>FINDINGS</b>
H1	DEP-COOP	Not supported---non-significant relationship
H2	COOP-COERCE	Supported
H3	COOP-CTFORM	Not supported---inverse relationship
H4	COERCE-SAT	Supported
H5	CTFORM-SAT	Not supported---non-significant relationship

#### **4.6.2 Hypothesis Testing --Part 2**

In Part 2, the effects of coercion and contract formality on satisfaction are investigated in light of the relationship ultimately embarked upon by the parties. The purpose is to see if the effect size varies depending on the type of relationship entered into. Each case was classified according to the relationship criteria presented in Chapter 3. Table 4-9 presents the percentage of cases that fell into each relationship category. These percentages are compared to percentages obtained in previous research (column 3) using professional participants (Rinehart et. al., 2000). It can be seen that the percentage of cases in each category generally follows the pattern found in the previous data.

**TABLE 4.9 RELATIONSHIP TYPE COMPOSITION**

<b>RELATIONSHIP TYPE</b>	<b>% OF CASES</b>	<b>PREVIOUS %</b>
Alliance	22%	16%
Joint Venture	6%	12%
Partnership	25%	12%
Specialty Contract	11%	6%
Contractual	8%	18%
Administered	14%	14%
Non-Strategic Transaction	18%	16%

**Hypothesis 4a: Given that support is found for H4 (the level of coercion implemented in the negotiation will have a significant and negative effect on the degree of satisfaction), the size of the regression coefficients will be significantly different among the relationship categories. For example, the size of the regression coefficient for Non-Strategic Transactions will be significantly smaller than the size of the regression coefficient for Alliances.**

As previously discussed, the hypothesized significant relationship between coercion and satisfaction was confirmed. Further analysis investigated the question of whether size of the effect varies according to the type of relationship developed. The data were sorted according to the type of relationship established, based upon the criteria presented in Chapter 3. A separate regression was run on the cases applicable to each relationship type. The betas obtained for each relationship type were compared to see if the beta for non-strategic transactions, for instance, was significantly different from the beta for



alliances. Table 4.10 presents the beta, significance, and standard error found for each relationship type.

**TABLE 4.10 H4a BETA TEST (COERCION TO SATISFACTION)**

	RELATIONSHIP TYPE	N	BETA	SIG (P=)	B	STD. ERR.	SIG. DIFF.	Z SCORE
0	OVERALL	264	-0.186	.002				
1	CONTRACTUAL	39	+0.268	.124	.144	.091	CT vs PT CT vs AL	2.45 2.11
2	SPECIALTY CT	10	+0.154	.571	.132	.222		
3	JOINT VENTURE	17	+0.104	.733	.098	.281		
4	ADMINISTERED	31	+0.104	.568	.108	.188		
5	NON-STRATEGIC	43	-0.084	.594	-.075	.140		
6	ALLIANCE	59	-0.184	.168	-.122	.087		
7	PARTNERSHIP	65	-0.240	.059	-.143	.074		

The betas found within relationships were then tested to see if they were significantly different. This test is found on page 111 of Cohen and Cohen where they assert “It is possible to test the null hypothesis that two independent B’s (i.e. coming from different samples, 1 and 2) are equal by utilizing their respective standard errors....The test for the difference in standardized partial betas proceeds in exactly the same way” (Cohen and Cohen 1983). The difference between the two betas is divided by the square root of the sum of the squared standard errors of each. This results in a z score that is referenced to the normal curve table to obtain the probability. A z score of 1.96 or above constitutes support for the hypothesis that there is a difference between two betas. The significant z scores are shown in the far right column of Table 4.10 along with the groups that showed differing effect sizes. These subsamples were derived by dividing a larger sample

according to classification on relationship type. These can still be considered independent samples because the overall sample was randomly selected. Dependent samples are most commonly seen when each sample has the same subjects but the measurements for the two samples occur at different times (i.e. repeated measures).

The pairs that showed a significant difference in effect size were: a) contractual when compared to partnerships and b) contractual when compared to alliances. An analysis of the confidence intervals of the betas for these pairs confirms that the betas are indeed different. Although the confidence intervals for these pairs do show some overlap, it is clear that estimate of the beta for the contractual group lies above the upper limit of the confidence intervals for both partnerships and administered relationships. The beta for the contractual group is +.144 while the upper bound for alliances is +.053 and the upper bound for partnerships is +.005. The 95% confidence intervals for the pairs that had significant z scores appear below.

<b>Category</b>	<b>B</b>	<b>Lower Bound</b>	<b>Upper Bound</b>
<b>Contractual</b>	<b>+.144</b>	<b>-.041</b>	<b>+.329</b>
<b>Alliance</b>	<b>-.122</b>	<b>-.297</b>	<b>+.053</b>
<b>Partnership</b>	<b>-.143</b>	<b>-.291</b>	<b>+.005</b>

The rationale for this hypothesis is that in situations where channel members are provided the necessary and expected information communication for the existing channel

conditions, members are predicted to experience enhanced outcomes (Mohr and Nevin 1990). The use of coercion in an alliance or a partnership is not the expected form of communication, so it was predicted to have a negative effect on satisfaction. The more cooperative nature of a partnership or an alliance typically calls for a more collaborative style of communication. When a coercive style is used instead of the expected collaborative style a decrease in satisfaction may be expected. Contractual relationships, however, had a beta that was shown to be different from the betas for alliances and partnerships. These are interesting results because they indicate that a negotiation strategy such as coercion may have a more negative effect on satisfaction in the context of some types of relationships, particularly those that require a high degree of coordination and information sharing.

Since both tests indicated a significant difference in the betas among category pairs, H4a is confirmed.

**Hypothesis 5a: Given that support is found for H5 (the level of contract formality will have a significant and negative effect on satisfaction), the size of the regression coefficients will be significantly different amongst the relationship categories. For example, the size of the regression coefficient for Non-Strategic Transactions will be significantly smaller than the size of the regression coefficient for Alliances.**

The hypothesized relationship between contract formality and satisfaction was not significant. Thus, the hypothesis was not supported and further analysis was not performed.

#### **4.6.3 Post Hoc Analysis**

A post hoc analysis was performed on the regression data using the relationship category subsamples to ascertain if the effect sizes occurring earlier in the model varied in a fashion similar to that seen in the previous section. While conclusions cannot be drawn from this analysis, it may provide a fruitful avenue for future research.

In the earliest stage of the model, Hypothesis 1 asserted that there would be a positive relationship between dependence and cooperative orientation. Although the effect was not significant when using the whole sample, some differences in effect size did appear when broken out by relationship category. The effect of dependence on cooperative orientation was negative and significant for alliance type relationships. The beta for alliances was different from the betas for both non-strategic and contractual relationships. The results are shown in Table 4.12.

**TABLE 4.11 POST HOC (DEPENDENCE TO COOPERATIVE ORIENTATION)**

	RELATIONSHIP TYPE	N	BETA	SIG (P=)	B	STD. ERR.	SIG. DIFF.	Z SCORE
	OVERALL	264	-.064	.150				
1	NON-STRATEGIC	43	+0.231	.068	.257	.169		
2	CONTRACTUAL	39	+0.172	.148	.129	.122		
3	SPECIALTY CONTRACT	10	-.038	.459	.060	.569		
4	ADMINISTERED	31	-.091	.313	-.105	.213		
5	PARTNERSHIP	65	-.141	.131	-.140	.124		
6	JOINT VENTURE	17	-.142	.294	-.137	.247		
7	ALLIANCE	59	-.264	.022	-.251	.122	<b>AL vs NS</b> <b>AL vs CT</b>	<b>2.42</b> <b>2.19</b>

Hypothesis 2 posited a negative effect of cooperative orientation upon the level of coercion used in the negotiation. This hypothesis was supported but, again, a further breakdown provides interesting information. Alliances showed an especially strong negative effect between the two factors. The beta for alliances was  $-.416$ , which is significant and also proved to be different from the beta for contractual relationships  $(+.072)$ . This differentiation continued through the last stage of the model where alliances and contractual relationships also showed different betas in the coercion to satisfaction analysis. A potential explanation is that those who intended to form an alliance early in the negotiation process avoided the use of coercive strategies.



**TABLE 4.12 POST HOC (COOPERATIVE ORIENTATION TO COERCION)**

	RELATIONSHIP TYPE	N	BETA	SIG (P=)	B	STD. ERR.	SIG. DIFF.	Z SCORE
	OVERALL	264	-.146	.009				
1	CONTRACTUAL	39	+.072	.332	.107	.244		
2	ADMINISTERED	31	-.016	.467	-.019	.224		
3	PARTNERSHIP	65	-.071	.288	-.095	.169		
4	NON-STRATEGIC	43	-.152	.116	-.162	.165		
5	JOINT VENTURE	17	-.308	.115	-.414	.330		
6	ALLIANCE	59	-.416	.001	-.530	.153	<b>AL vs CT</b>	<b>2.21</b>
7	SPECIALTY CONTRACT	10	-.503	.069	-.645	.392		

Hypothesis 3 established a positive and significant relationship between cooperative orientation and contract formality. Further analysis by category shows that the effect in the contractual relationships (-.241) is different from the effect in both alliances (+.204) and partnerships (+.196). The results are shown in Table 4.13.

It is interesting to note that alliance type relationships have consistently been the polar opposite of contractual relationships as far as differences in effects among the relationship categories.

**TABLE 4.13 POST HOC (COOP. ORIENT. TO CONTRACT FORMALITY)**

	RELATIONSHIP TYPE	N	BETA	SIG (P=)	B	STD. ERR.	SIG. DIFF.	Z SCORE
	OVERALL	264	+.110	.009				
1	SPECIALTY CONTRACT	10	+.609	.031	1.277	.589		
2	ALLIANCE	59	+.204	.061	+.290	.184		
3	PARTNERSHIP	65	+.196	.059	+.311	.196		
4	NON-STRATEGIC	43	+.095	.272	+.103	.167		
5	ADMINISTERED	31	-.003	.494	-.005	.331		
6	JOINT VENTURE	17	-.006	.491	-.013	.462		
7	CONTRACTUAL	39	-.241	.070	-.522	.346	CT vs AL CT vs PT	2.07 2.09

#### 4.7 Summary

This chapter presented the results of the research. The chapter began by examining the characteristics of the sample. A review of the sample characteristics found the sample size to be adequate in number for analytical power.

The chapter then examined descriptive statistics of the measured variables. A review of the means, skewness and kurtosis indicated that the variables are normally distributed. The preliminary data analysis continued by assessing the construct's reliability, convergent validity, and discriminant validity. It was concluded that the constructs in the model exhibited sound reliability and validity characteristics.

Hypothesis testing proceeded by analyzing the results of correlation analysis, multiple regression and path analysis. Two of the five hypotheses in the base model were supported with effects that were significant and in the hypothesized direction. The supported paths were from cooperativeness to coercion and from coercion to satisfaction.

The path from cooperativeness to contract formality was significant but in the opposite direction of the hypothesis.

Attention then turned toward the analysis of the effect sizes to see if relationship type moderated the beta between coercion and satisfaction. It was found that there was a difference between the betas of several of the relationship types.

In sum, support was found for several key aspects of the model posited in this dissertation. The theoretical and managerial implications of these findings will be discussed in Chapter Five.

## **CHAPTER 5: IMPLICATIONS AND CONCLUSIONS**

### **5.1 Introduction**

Conclusions from this research offer a number of important insights into issues that are of significant managerial as well as theoretical interest. First, the findings help delineate negotiation strategy for both the academic community and practitioners in terms of environmental antecedents and potential consequences of negotiation strategy. Second, the cooperative orientation of the negotiator was shown to be a driver of negotiation strategy. Third, an important link between negotiation strategy and satisfaction with the negotiation outcome was substantiated. And finally, the outcome implications of negotiation strategy are further refined based on relationship type.

This chapter reviews the implications of the data analysis and presents the contributions of the research. In the following sections, three major themes and the associated substantive conclusions are discussed from two perspectives: managerial and theoretical. Each theme addresses issues first raised in Chapter 1. The document concludes with a review of limitations of the study and directions for future research.

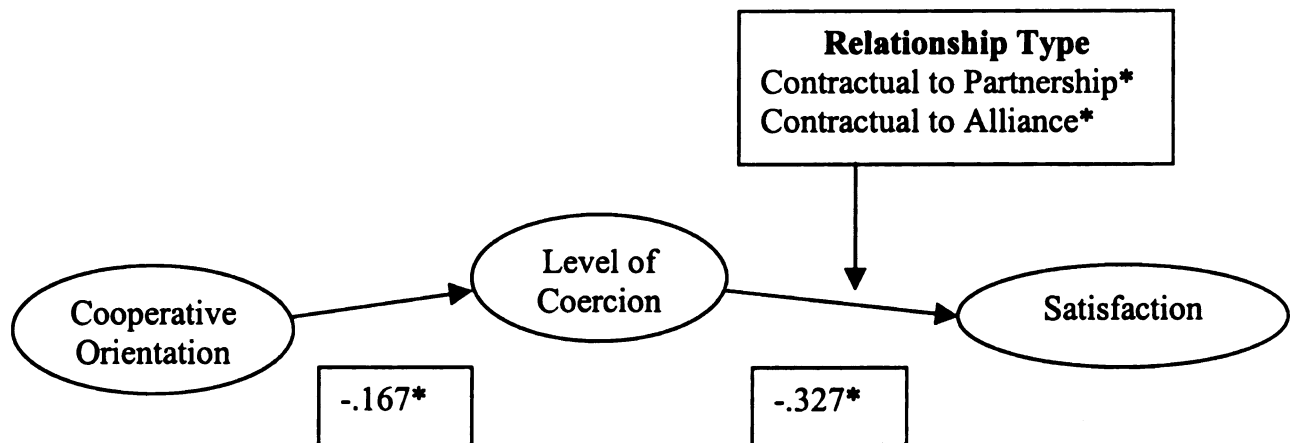
### **5.2 Overall Model Significance**

The first objective of this study is to gain an understanding of the operation of the negotiation process and how it can impact the subsequent development of the customer-supplier relationship. The Political Economy Paradigm (Stern and Reve 1980) provided

the guidance for the development of a model from which the hypotheses were postulated. The theoretical model was built and tested regarding the relationships among environmental factors, personal characteristics, negotiation strategies, and outcomes as they pertain to customer-supplier relationships (Rinehart and Page 1992). Figure 5-1 presents a summary of the findings revealed from testing the hypotheses set forth in the base model. Only relationships found to be significant and in agreement with the hypothesis have been included in the diagram. From the pattern of significant relationships, three major themes are identified and discussed.

In addition, the outcomes stemming from a particular negotiation strategy are modeled based on the type of relationship established. Recent research has placed greater emphasis on exploring the behavioral elements of differing interfirm relationships (Ring and Van de Ven 1992; Heide 1994). This line of research is furthered as the relationship typology utilized in this dissertation is based on behaviors occurring during the course of a negotiation.

**Figure 5.1 Confirmed Findings**



### **5.2.1 Theme One:**

**Elements of the environment, including personal characteristics, do have an impact on the negotiation strategy implemented.**

This portion of the research linked the antecedents of negotiation strategy to the implementation of elements of that strategy. Hypothesis 2 addressed the question of “What are the effects of dependence and cooperative orientation on the level of coercion implemented in the negotiation strategy”. Coercive strategies are defined as “mechanisms for gaining target compliance that reference or mediate negative consequences for non-compliance” (Gundlach and Cadotte 1994). It was found that cooperativeness has a significant negative effect on the level of coercion used in the negotiation. Graham viewed elements such as cooperativeness to be pre-existing negotiator characteristics (Graham 1986). He asserts that negotiator characteristics, such as cooperative orientation, are determined before the negotiation process begins. These are not just personality orientations, however, because negotiation strategies adopted by bargainers are shaped by a variety of factors in addition to stable personal traits (Putnam and Wilson 1982). The results of this dissertation provide additional support for the Political Economy Paradigm, which would have predicted such a negative relationship between cooperativeness and coercion.

The managerial implication of this finding is that the atmosphere maintained in a department can have an effect on the negotiation strategies used. A group that stresses a

cooperative attitude will tend to use less coercion in their negotiations. For instance, purchasing departments at major retailers that are short-term oriented tend to resolve conflicts with vendors by using aggressive strategies (Ganesan 1993). Frank's Nursery and Kmart are examples at opposite ends of the spectrum of aggressive versus problem-solving negotiation strategies. Frank's promoted a corporate orientation that promoted the use of aggressive negotiation strategies such as coercion. Relationships in the Frank's supply chain tended to be tempestuous and short-lived based on the author's personal experience. The corporate culture at Kmart, however, encouraged more of a problem-solving orientation that refrained from using active aggressive strategies such as coercion, based on the author's personal observations.

As the following sections point out, aggressive strategies using high levels of coercion can ultimately have a negative effect on the relationship, as measured by the satisfaction derived from a transaction. As firms continue to outsource a larger percentage of their needs, the impact of such outcomes is heightened. Therefore, it is important that buyers and relationship managers understand how best to accomplish their relationship goals. The findings in this study help to achieve that understanding.

### **5.2.2 Theme Two:**

**The level of coercion utilized can have an impact upon the degree of satisfaction obtained from the negotiation.**

The general question here is "How does the negotiation process impact the subsequent development of the relationship?" From a supply chain management viewpoint, a



successful relationship strategy will result in both parties feeling satisfied and thereby encouraged to continue working with each other. Hypothesis 4 addresses the general question of what are the consequences of utilizing a particular negotiation strategy (coercion) on the future of the relationship. This link has implications that pertain to managers representing both customers and suppliers. It is an important question for practitioners because companies are increasingly striving to develop closer, more cooperative relationships with key suppliers and key customers (Monczka et al. 1998). They are seeking to adopt a higher level of cooperation and maintain trading relationships over a longer period of time (Spekman 1988). Innovative managers worldwide are experimenting with a myriad of approaches to make relationships with their business suppliers and customers more productive and enduring (Cannon and Perreault 1999). As firms strive to develop and maintain these high trust relationships, it is critical to know exactly what kind of effect that the implementation of strategies such as coercion will have on a relationship.

The use of power has to be a part of a firm's negotiation strategy. As firms pursue longer-term agreements they still need to exert some form of control. For instance, automakers have recently been requesting 5% annual decreases in price from suppliers. This means that the relationship becomes an ongoing negotiation as continuous improvements are sought in pricing as well as performance. Different sources of power can have varying short and long-term effects on a negotiation and on a relationship. The decision to use coercive power is most likely related to the power holder's perception of the willingness of the other party to comply (Monczka et. al. 1998). The repeated use of

this power can have damaging effects on the longer-term relationship between parties. Thus, the extant knowledge is that coercion has a negative effect on a relationship and that general effect has been empirically confirmed in this dissertation.

The findings of this study, however, go beyond just this general effect. What we have learned here is that the effect of coercion can vary depending on the relationship type. This means that managers must be flexible in their approach to negotiation. Negotiation strategies will have to be adapted to fit the relationship circumstances encountered. If an alliance with the other party is what makes sense in a given set of circumstances, then a coercive strategy should not be utilized. On the other hand, if a non-strategic relationship is what makes sense, then a coercive strategy may be effective. Specific tactics must also be flexible within the context an individual negotiation. A tactic used in the discussion of one issue in a negotiation may or may not be successful when another issue is being discussed.

In the theoretical domain, Frazier has framed the expansion process of a relationship as a consequence of each party's satisfaction with the other's role performance and it's associated rewards (Frazier 1983a). Similarly, Ganesan maintains that "each negotiation episode is one of a sequence of episodes that constitute the relationship between the retailer and vendor. The outcomes from a specific negotiation involve not only the agreement and related consequences such as total concessions and profits, but also residual emotions such as satisfaction or frustration with the outcome" (Ganesan 1993). He was able to conclude that a retailer's use of a problem-solving strategy is positively

related to satisfaction but could not support his assertion that aggressive strategies are negatively related to satisfaction. The results of this dissertation provide some additional support for the contention that satisfaction is diminished by the use of coercive strategies. The amount of variance explained ( $R^2 = 0.04$ ), however, is rather small so it is necessary to go one step further and see if this effect has been masked by other variables. The work of Mohr and Nevin (1990) on the expected and effective mode of communication for a given type of relationship offers explanatory potential. The following section explores the possibility of an interaction effect that relationship type may have with the effect of coercion on satisfaction.

### **5.2.3 Theme Three:**

**The impact of coercion on satisfaction varies depending on the type of relationship.**

Hypothesis 4a stipulates that, given the significant and negative effect of coercion on satisfaction, the size of the regression coefficients will be significantly different among the relationship categories. Although there was an overall negative effect when using all of the cases, it was found that the size of the effect was significantly different in two instances when the cases were split out by relationship type. When coercion is used, both partnerships and alliances show a more negative effect on satisfaction than found in contractual relationships. This may well be the most important finding of the dissertation. It helps to clarify and provide more detail to the effects found in the base model and gives the research a more strategic orientation.

A major contribution of the dissertation is the demonstration that negotiation strategy is not a “one size fits all” concept. Different strategies may work better or worse depending on the relational circumstances. A useful starting point for managers handling a transaction or a relationship would be to determine what type of relationship is desirable. They can then design their negotiation strategy to fit these circumstances by utilizing methods that are expected and effective. For instance, if an alliance were the desired relationship, coercion would not be an acceptable negotiation strategy. There is also a prescriptive aspect of the findings because they can be used as the foundation upon which recommendations concerning negotiation strategies for given situations can be based.

A portfolio of relationships is available to managers, so it is beneficial to remember that a highly collaborative relationship, such as an alliance or a partnership is not always the goal. The subcontracting of an unimportant assembly operation, for example, may be most effectively handled by a contractual relationship on terms dictated by the buyer. This is a case where coercion may not have a negative impact because it is an expected and effective means of communication. The point is that the negotiation strategy can be tailored to the demands of a particular set of circumstances. From a managerial standpoint, it becomes evident that a strategy that has a negative impact in one type of relationship can have a more positive impact in another type of relationship. It depends on the type of relationship that makes sense in a given set of circumstances and what the expectations are in that type of relationship. Table 4-10 in Chapter Four revealed the difference of effect sizes when the cases were split out by relationship type.

While the study demonstrated findings of importance to managers and policymakers, fellow researchers will benefit from the findings as well. The importance of power in understanding customer supplier relationships was recently addressed in a special issue of *The Journal of Supply Chain Management* (Spring 2001) was devoted to the power perspective in procurement and supply management. Cox argued that there can be no “best practice” based on any one way to conduct customer-supplier relationships (Cox 2001). The findings of this dissertation help to provide some empirical support for that perspective. Both buyers and sellers need to make appropriate choices about how they conduct themselves in exchange relationships. Effective choices about relationships can only be made when power structures within these complex sets of extended relationships are understood. The relationship management approaches that are effective within one regime may not be appropriate in another. “Rather than focusing on the development of one approach, as appears to have been the case with partnering or alliancing in recent years, it is essential for practitioners and academics alike to understand the full range of relationship management choices available and to choose wisely among them (Cox 2001).”

This dissertation helps to fill that gap in the literature by bringing to light the mechanisms operating in several relationship types that have not garnered much attention lately. Contractual, non-strategic, and administered relationships have not received the attention that has been given to alliances and partnerships. This is an oversight, however, because an estimated 48% of all business relationships would be considered non-collaborative (Rinehart et al. 2000). Many firms now establish a portfolio of relationship strategies

based on market criteria and product importance. Alliances and partnerships would exemplify collaborative strategies that entail the parties adopting a high level of purposeful cooperation to maintain a trading relationship over time. It is useful to know how negotiation strategies such as coercion operate in each type of relationship in order to maintain efficiency and effectiveness while working with a wide range of relationships.

The work of Mohr and Nevin (1990) was directed toward understanding communication strategies in a variety of channel circumstances and served as the basis for Hypothesis 4a. They developed a contingency theory in which the level of channel outcome obtained (i.e. satisfaction) is contingent upon an interaction between communication strategy and given channel conditions (i.e. relationship type). They worked from the premise that communication in relational (collaborative) channel structures differs from communication in market channel structures. This train of thought was supported by the findings of Hypothesis 4a - the data support the hypothesis that the effect of coercion on satisfaction does vary by relationship type.

A low interaction frequency negotiating strategy such as coercion is expected and effective in some types of relationships or channel structures so it could have a different impact upon satisfaction in certain situations. Major retailers often work with hundreds of suppliers and thousands of items each day. Efficiency in communicating the necessary information to conclude the transactions is necessary, so taking a strong leadership position and even dictating requirements is often an expected mode of interaction.

Insisting that a vendor improve its information processing capability or utilize particular software programs would be two examples of actions that may be required of vendors in order to continue selling to that retailer. This is coercive in nature because the loss of business is implied. Because it is expected and efficient in these channel conditions, however, the potential negative effect on satisfaction of such coercion is not as great as it would be if the parties were engaged in an alliance where such coercion constitutes a mismatch.

A similar situation appears when examining the impact of contract formality upon satisfaction. Although the effect was not significant when considering all cases, the impact could be seen to vary when the sample was split according to relationship type, as shown in Table 4-11. Parties that entered into contractual relationships tended to show dissatisfaction with these arrangements, while those in administered relationships showed less dissatisfaction.

The results in this section of the dissertation also lend support to Cox's (2001) assertion that collaboration is not always the only choice available for managing suppliers and it is not always the best choice. The effect of the use of coercive mechanisms in contractual relationships was significantly different than the effect its use in both partnerships and alliances. A more thorough understanding of the power structure in a relationship and its impact on negotiation strategy and negotiation outcomes can lead to more effective and efficient means of managing relationships.

#### **5.2.4 Relationship Dynamics**

Another benefit to theory stemming from this work is that it provides exposure for a new categorization of relationship types (Rinehart et al. 2000). The criteria for defining relationships in this dissertation are based upon behaviors occurring during the interaction between the parties. This provides a convenient method for categorizing these relationships and further refines the relationship framework proposed by Cannon and Perreault (2000). In addition to being based upon behaviors identified during the negotiation, this new categorization is further supported by a follow-up Delphi study that secured management interpretation of the correct terms that should be applied to the relationships generated by the original analysis. The establishment of these terms enhances the existing theory of business-to-business relationships by testing portions of existing theory in a more integrated manner.

#### **5.2.5 Additional Applications of This Research**

This research has ramifications in several additional areas. In the purchasing discipline, negotiation plays an important role in supply management. Buyers need to be able to identify other's negotiating styles and recognize their own style in order to conduct effective discussions and manage relationships. It is also important that they understand cultural differences when preparing for and conducting negotiations. This will also have an impact on post-negotiation measurement and subsequent negotiations on issues that



arise such as continuous performance improvement. The negotiation strategies and behavioral elements identified in this dissertation will help managers to recognize these styles.

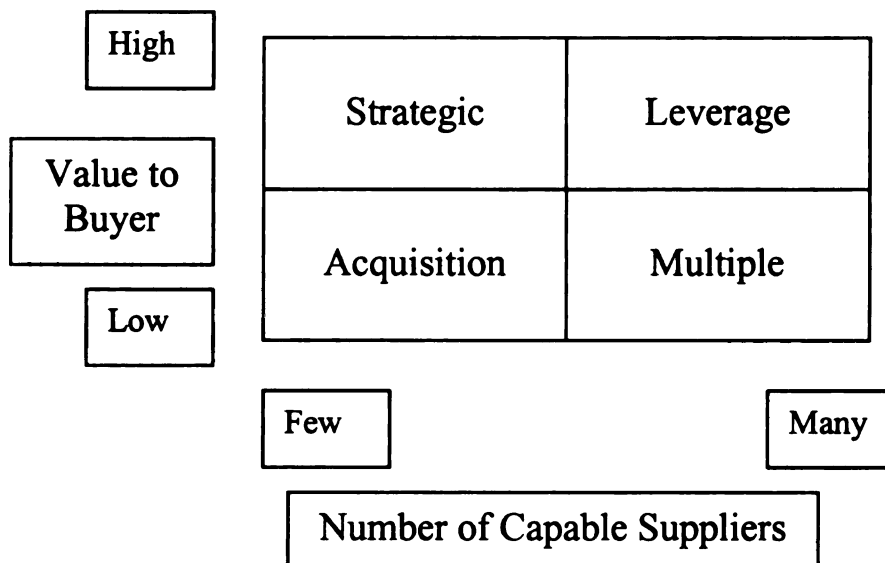
When awarding business it is often necessary to evaluate the potential of a supplier to form a collaborative relationship such as an alliance and to identify barriers that may exist to the formation of this type of relationship. Suppliers need to be evaluated for relationship fit at the same time that capability and performance potential are assessed. For example, NAPM offers several seminars on supplier relations that address key supplier management skills such as: how to be a good customer, how to communicate requirements, and how to manage ongoing relationships. This dissertation contributes in this area by identifying strategies that can be used to maintain a competent supply base. The study has examined two prominent negotiation strategy choices available to relationship managers, coercion and contract formality. Other choices would also include concession behavior, supplier development efforts and supplier integration.

Suppliers achieve excellence when they work with excellent customers. Supplier development remains in the hands of the purchaser's procurement and quality departments. The Association for Manufacturing Excellence surveyed suppliers to determine what characteristics they use to describe a "Best Customer." The negotiation and award process were among the characteristics named by these suppliers (Moody 1992).

The current trend in purchasing recommends moving beyond transactional relationships in the development of strategic supply fulfillment. The question needs to be asked: What are my real objectives? Can they be achieved by a less collaborative type of relationship? The research lends support to the idea that tactics such as coercion can be very effective if that is what makes sense in a particular supply chain or a particular relationship. It may not be necessary to go to the time and expense of forming alliances if less time consuming methods are feasible.

In the strategy arena, one way of assessing what kind of supply strategy to embark upon for an item is to balance the value of the component against the supply risk for that item.

A common decision matrix is shown below.



A quick glance at this matrix reveals that the objectives sought from a supplier relationship can be assessed based upon the value of the item and the number of capable suppliers available. It is argued here that different negotiating and relationship management tactics are called for depending on which quadrant the items fall into. Only items in the strategic quadrant really require highly collaborative relationships such as alliances and partnerships. Other quadrants such as leverage and acquisition may be acceptably handled in non-strategic or administered relationships. In these instances, the use of a coercive negotiation strategy may be functional. The research presented here lends support to such a viewpoint as we find the impact of coercion on satisfaction varied according to relationship type. Reviewing negotiation strategies, then, can be performed in association with a portfolio analysis of sourcing approaches. This could help to reduce the time and effort required to manage relationships, particularly for routine or low value purchases. In an effort to minimize acquisition costs more coercive and more formalized (even automated) methods may be used. The forces of the market will be allowed to work their magic at setting prices and service levels rather than the effort put into negotiation.

A substantial portion of negotiation activity takes place within the context of ongoing relationships. An example of this would be the activities related to supplier development, which is a bilateral effort by buying and supplying organizations to jointly improve the supplier's performance and capabilities. Supplier development efforts are

categorized as reactive, proactive, and integrative. These types of efforts take place after the initial negotiation with a supplier but are part of the ongoing dynamics of the customer-supplier relationship. How are these efforts best accomplished? The use of coercion in a supplier development situation can be exemplified by the actions of a major national retailer as it strove to improve its supplier's capabilities by requiring them to institute electronic data interchange (EDI). The tone of this effort was decidedly coercive as the loss of future business was clearly implied. "Your company must transmit your invoices using accurate data from our Purchase Order" and "It is our intention to convert all vendors from the proprietary format to industry standards by the end of 1992" were comments appearing in the EDI proposal. While rewards in the form of decreased costs were promised, the main point was that suppliers who did not achieve EDI capability would no longer be suppliers. It was a condition of doing business in the future. The contention of this dissertation is that this type of relationship management is acceptable under certain channel conditions, such as a channel led by a dominant retailer where such communications are efficient and effective.

Other examples of negotiations that take place in the context of ongoing relationships would include having suppliers develop the capability to provide bar codes, advance shipping notification, and participate in vendor managed inventory. Scorecard programs that measure and rank vendors also carry the implied threat of the loss of business for under performing suppliers. In fact, supplier development programs are often instituted in conjunction with supplier rationalization efforts that reduce the number of suppliers. The performance of laggard suppliers needs to be improved but the buying firm needs to

maintain efficiency in its purchasing operations. These efforts are important to achieve goals in the areas of quality, delivery and customer service. If it appears that the supplier does not have the potential to improve its performance, then it will ultimately have to be cut from the supply base.

### **5.3 Directions for Future Research**

Directions for future research can be derived from three different sources. First, they can be derived from limitations realized from the design and execution of the current study. Second, they can be generated from the study of additional relationships or paths included in the study, but not hypothesized. Finally, they can be logical extensions of the completed research.

#### **5.3.1 Limitations of Current Study**

First, while the present study requested that participants answer many of the questions during a specific time frame, the research is not longitudinal because only one transaction was investigated. Thus, there is no way to determine the effects on outcomes that occur at a later point in time. Future research should consider adapting a longitudinal design to assess the effects after a series of transactions have occurred. A longitudinal study would involve measuring the same parameter at two or more points in time (Agresti and Finlay 1997).

Second, it should be mentioned that for the model to be representative of the antecedents and consequences of negotiation strategy, the following sequential ordering was assumed to exist: environment assessment, strategy development, relationship development, and satisfaction. Although this sequence is a classic one, other sequences are not implausible. For instance, relationship structure could influence perceptions of the environment. Without longitudinal data, this type of possibility cannot be ruled out.

Third, the sample size of this study is moderate. After the cases were split out by relationship type, the specialty contract and joint venture categories contained too few cases to interpret the results. Future research may direct more resources to data collection in order to assure all categories are adequately represented. This would allow for the use of structural equation modeling to examine the effects taking place within the relationship categories.

Despite the generally affirmative findings in select areas and the sound execution of the research, the work is limited by a lack of generalizability. While the controlled environment of the classroom allows the variables to be tailored to the abstract theoretical constructs, the use of student subjects participating in an in-class simulation does not allow generalization of the results to practitioners. The elements of the simulation could not exactly duplicate situations encountered in the business world and students do not have the background that professionals possess. It is interesting to note, however, that many of the behaviors present in the real world are evidenced in this simulation, such as misleading the other party and having difficulty working with some participants. The

types of relationships established also appeared in generally the same ratios as found in studies conducted using active relationship managers as participants.

### **5.3.2 Additional Paths**

Several paths, in addition to the ones studied in this dissertation, are viable avenues for future research.

Although it was not hypothesized, there is considerable evidence of a direct link between cooperative orientation and satisfaction. A revision of the structural equation model suggested that adding a direct path between these constructs (in addition to the indirect paths) improved the fit of the model. This would serve to reinforce the assertion of Graham (1986) that cooperative orientation is a pre-existing negotiator characteristic that is determined before the negotiation begins. The hypotheses in this dissertation asserted that cooperative orientation only affects satisfaction through the mechanisms of negotiation strategy. It is possible, however, that a high level of cooperative orientation leads directly to levels of satisfaction. Even more interesting, what is the interaction of relationship category with cooperative orientation and satisfaction? If a person with a high cooperative orientation is conducting a negotiation in a non-collaborative situation such as an administered relationship or specialty contract, will their perspective of the outcome be more negative than if they were operating in an alliance?

Second, the moderating effect of relationship type was only examined as it impacted satisfaction. A similar type of effect may become apparent at an earlier phase in the

model. The same analysis used in the dissertation could be employed to see if negotiation strategy, perception of dependence, and cooperative orientation vary according to the type of relationship developed. Additional tests concerning the median levels of perceived dependence, cooperativeness, coercion, and contract formality existing within each relationship type would also reveal interesting information.

Third, interesting sub-sample analyses based on the key variables could provide greater insights into the relationships unveiled in this study so far. Comparisons between the effects found in the first and second round of negotiations could be made. This might demonstrate differences based on the experience that participants gained in the first round. This could not be accomplished in this simulation because the teams were reformed after the first round and were positioned in different functional areas. Paired sample analysis would then be possible to see if expectations, strategies, and satisfaction differ between the two rounds. This type of longitudinal study would also be valuable with professional participants to see how strategies vary over time.

The data could also be broken out by business category. In this simulation, teams were assigned the functions of manufacturer, carrier, or distributor. Each type of function possesses different types of power that may lead it to react differently to the various elements of the simulation. It would be interesting to examine whether certain negotiation strategies or relationship types tend to appeal to certain functional categories. Again, these types of differences may be more apparent if practitioner subjects are studied.



Fourth, the difference in the size of the effect of contract formality on satisfaction across relationship types presents another opportunity for future research. This trail could not be followed here because the effect was not significant when all cases were considered. A preliminary review, however, shows that there may be a basis for asserting that this effect does vary by relationship type. The effect size of contract formality on satisfaction was significantly different for contractual relationships when compared to administered relationships.

### **5.3.3 Logical Extensions**

First, substantial gains in the generalizability of the results of the model would be gained by gathering data from practitioners. A similar negotiation simulation with practitioners as participants would provide a more realistic context for the model. Practitioners would be able to draw upon their greater experience and training to provide realistic reactions to the situations. This would be especially true when participants evaluate the level of dependence existing on a customer-supplier relationship. Practitioners would have a much better perspective on the relative positions of the parties at the beginning of the negotiation.

Second, the present study only examined the behaviors of one side of the negotiating pair. Analyzing the data on a dyadic basis would enable a more thorough exposition of the negotiation process as it develops. It would also allow a comparison, for instance, of

each side's assessment of the relationship type to see if they are in agreement. Perceptions of dependence, coercion and cooperativeness could also be compared.

#### **5.4 Contributions**

Relatively little study has been done of when or under what circumstances partnerships and alliances are not a good approach to a supplier relationship and when some other approach might be more appropriate. Proponents of partnerships and alliances indicate that the traditional purchasing approach of competitive bidding and short-term contracting no longer satisfies the requirements of competitive markets, but this may not be true in all cases. While there is an increasing body of research relative to the development and benefits of cooperative buyer supplier relationships, much of the extant literature is anecdotal and case study based. This study fills a gap by providing empirical analysis of using various negotiating strategies in a variety of relationship conditions.

The findings of this study have positive implications for purchasing decision makers. For the practitioner, the research results offer a deeper understanding of the complex issues faced in managing a successful supply chain. The findings provide direction on targeting specific negotiation strategies that will work in various situations. Managers can be made aware of the complementarities among situational conditions and factor them into their action plans. Finally, by examining definite relationships between negotiation strategies

and outcomes, this research provides managers with valuable insights on leveraging supply chain strategies for gains in targeted performance areas.

The analyses contained in this research are also valuable academically because they link specific negotiation strategies with the achievement of satisfactory outcomes. In addition, measurement scales are provided to evaluate the type of relationship achieved on the basis of level of trust, information sharing and commitment existing between the parties. The findings also suggest the above factors may be used to predict the satisfaction derived from a particular customer supplier relationship within the supply-chain.

## **5.5 Summary**

This chapter reviewed the managerial and theoretical contributions, limitations, and directions for future research. In Part 1 of this dissertation, a base model that simultaneously and rigorously examined the antecedents and consequences of negotiation strategy was developed and tested. In Part 2, effects found in the base model were analyzed after the sample had been split out by relationship type.

The purpose of this research was to provide an intermediate step in understanding the complex relationship between negotiation strategy and negotiation outcomes in the context of specific types of relationships. The research proposed and executed in this dissertation contributes to the theory and application of negotiation strategy. This was

achieved by conceptually and methodologically integrating several core concepts of the Political Economy Paradigm and negotiation theory. This research should help fill a void in both academic research on customer-supplier relationships and managerial application of negotiation strategies.

This research can be positioned under the general rubric of supply-chain based competitive strategies, and more specifically, as an investigation of the influence of negotiation strategy on satisfaction in the customer-supplier relationship. A conceptual framework of negotiation strategy, its dimensionality, measurement, antecedents and outcomes is proposed and tested. The exploration of relationship specific interaction addresses a gap in the supply chain literature.

The study addresses a gap in the sourcing literature by explicating the role of an unexplored moderator, i.e. the type of relationship in which the parties are engaged. The choice of structural equation modeling enhances the rigor and validity of the analysis.

## **Appendices**

## **Appendix A**

### **Simulation Instructions**

Personal Information and Communications Systems  
Negotiation Simulation – Introductory Instructions

**This simulation replicates an emerging industry that integrates personal computers and personal communications systems (i.e., walkman radios) into “all the time” information management systems. In this simulation, your team will play one of three roles, distributor of these systems in one of 12 market areas throughout the United States, one of up to four manufacturers of these systems that produces and sells these products to the distributors, or one of three carriers that provide transportation service between the manufacturers and distributors.**

**One of your key objectives is to create the necessary supplier / customer relationships to accomplish your market objectives. Therefore, you and your team of between two and four persons will have to determine the type of relationships that you would like to achieve with your suppliers or customers. In addition, you will have to consider the financial implications of your relationships. The fundamental financial objective will be firm performance, which is measured through a “Firm Profit Margin (After Taxes)” assessment.**

**Each team will be responsible for making two types of organizational decisions that are independent from each supplier / customer negotiation. First, each team will be responsible for designing an operating environment that will meet their organizational objectives. Those operating environment decisions will include operating facility sizes and technology capabilities; facility workforce size and skill; and customer transportation and delivery service strategies (distributor decision). Second, firms will be responsible for making decisions that affect their transaction and relationship management capabilities. Those decisions include: distributor market prices of these systems sold to the retail level (*Consumer Reports* indicates that retailers such as Circuit City, Best Buy, Office Max, and Staples are selling these systems to ultimate consumers at an average price of \$1,200, and it is believed that their average mark-up on these products is approximately 50%); and the number, experience, skill level, and technology capabilities of boundary spanners in the organization. All decisions are to be within the range described on each decision area on the spreadsheet. For example, if transportation service levels are identified as having 5 levels that are identified as 1 – 5, then responses must remain within that range. Inputs of 6 or greater will not be acceptable within simulation rules.**

**In addition, each team is responsible for making decisions associated with each supplier or customer negotiation that they pursue. Those decisions will include: identification of the other party to the negotiation; your team’s starting price, minimum or maximum price strategy, and final negotiated**

price; the product quality level offered by the manufacturer (manufacturing teams will have this level assigned at the beginning of the simulation (3 = high quality and 1 = low quality); volume of business conducted between the parties; length or term of the agreement reached between the parties; characteristic of the agreement or contract used; transportation costs and service levels; shipping terms and ownership of goods in transit; and promotional investments by the parties (manufacturers and distributors). In addition, negotiations between carriers and either manufacturers or distributors will include inputs concerning location of the origins and destinations of the movements, the distances of each movement, and the service levels provided by the transportation company under the terms of the agreement. In addition, each carrier shipment can hold 1,000 units of product; each unit is packaged in a box that is 12" X 10" X 18"; and each box (unit) weighs 20 lbs.

Each organization will have a different set of operating constraints to work within. For example, some firms will have higher facility construction and maintenance costs than others (ranging between \$150 - \$400 per square foot). Facility wages may range between \$20 / hour and \$30 / hour. Boundary spanning salaries may vary between \$25,000 / year and \$40,000 / year. Legal costs can also range between \$300,000 and \$12,000,000 per year. Finally, organizations will have varying levels of organizational administrative costs to cover. The administrative costs range between 8% and 12% of total cost to the firm.

In addition, recent research conducted by an independent consulting company found that typical firms in this industry (both supplier and customer firms) have found that facility sizes of firms normally require approximately one square foot of storage/production space for every ten units sold each year. In addition, it has been found that the typical boundary spanner can be responsible for approximately 20,000 units of transactions in a year.

To fully understand the characteristics of the outcomes from each negotiation, you are asked to respond to the questions that begin at cell C49. Cells C49, C50, C51, C52 are for you to input your project code number (assigned by the instructor). In cell D49 your team needs to indicate how many people have been assigned to your team (if an individual withdraws from the project and does not participate in the question responses below, you should change this response appropriately).

All of the following questions fall into several categories. The first category of questions are those that ask your general perceptions about supplier / customer relationships. Those questions include Question BK1 – BK6 (starting at Cell B56). Notice that your project code number automatically comes up, and you will be able to easily identify your



**response line/row by color (either orange, green, blue, or red). Your responses for these general response questions will be input on the same row in Column L. To insure security of your responses, please hide each row that you respond in after you have completed your response(s). The hide procedure is completed by blocking the row that you just responded in, then following the hide process using (FORMAT/ROW/HIDE). You should respond to these questions as soon as you have had an opportunity to review the spreadsheet.**

**The second category of questions pertains to interpretations made jointly by the members of your team concerning your strategies developed during preparation for each bargaining session. These question response cells are identified by shades of blue, pink and yellow in the response cells. Those cells can be found in columns N, O, P, Q, R, S, X, Y, Z, AA, or AB. The specific questions in this category include P1 – P10 (P8 requires an integrated team decision to assign roles for each team member). These questions start on Row 200 of the spreadsheet.**

**The third category of questions includes your individual interpretations of each strategy that your team has developed for each negotiation. Again, your responses to these questions are color coded as orange, green, blue, or red. Again, the cells that you respond in are in columns N, O, P, Q, R, S, T, X, Y, Z, AA, or AB. The specific questions in this category include P11 – P19, which directly follow the questions identified in the previous paragraph.**

**Your responses to the questions will provide you with additional elements of consideration as you are involved in negotiations with the other parties (including access to some diagnostic calculations that can assist you in development and implementation of your negotiation strategies), and an improved understanding of the negotiation process that you experienced during this simulation. Those diagnostics can be found in columns AE – AT. The diagnostics include the following: aggregated information concerning your interpretations of the personal influence elements of the negotiation (Row 4), assessment of operational power / dependence elements of the negotiation (Row 32), calculations of the anticipated negotiation strategies that you are considering (Row 35), a suggested discussion order for the issues that you may discuss with the other party based on your decision factors (Row 41), and decision structure inputs for assessing the value of different suppliers or customers that you are considering (Row 50 – Row 384). If you are unfamiliar with these supplier / customer evaluation techniques, ask the instructor for clarification.**

**Finally, each team has the option of three agreement / contract types. The most basic type of agreement is a letter of agreement between the parties. Each team can find pre-developed letters of agreement on the spreadsheet**

**starting at row 500 (B500). For those teams that feel they need greater specificity in their agreements, they can purchase either a short form contract or a long form contract from the instructor. Those teams that choose to use either the long or short form contract, may use the agreement form from the spreadsheet as an appendix to the contract to provide specificity for the elements negotiated. Manufacturers and distributors will find that they each will have an agreement form generated for their negotiated outcomes. Therefore, they will only have to use one of the forms from either spreadsheet. However, the agreement forms generated for negotiations with carrier organizations can only be printed from the carrier spreadsheet.**

**Personal Information and Communications Systems  
Negotiation Simulation – Final Instructions**

**Prior to turning in your completed agreements, please respond to the questions that address your bargaining activities. Those questions fall into two categories.**

**The first category of questions pertains to interpretations made jointly by the members of your team concerning the actual implementation of the strategies implemented during the bargaining sessions. These question response cells are identified by shades of blue, pink and yellow in the response cells. Those cells can be found in columns N, O, P, Q, R, S, T, X, Y, Z, AA, or AB. These questions should be answered immediately after you have submitted your agreements or contracts to the instructor. The specific questions in this category include B1 – B4, B7, B9, B10 (B5 requires an integrated team decision to assign roles for each team member). These questions start in Row 1000 of the spreadsheet.**

**The second category of questions includes your individual interpretations of each negotiation that your team was involved in during this case. Again, your responses to these questions are color coded as orange, green, blue, or red. Again, the cells that you respond in are in columns N, O, P, Q, R, S, T, X, Y, Z, AA, or AB. The specific questions in this category include B6, B8, B11 – B33.**

**Once each member of your team has completed the bargaining questions, please turn in your disk. Each of your agreements or contracts should be printed in advance and signed by all members of both teams.**

## **Appendix B**

### **The Full Survey Questionnaire**

## Negotiation Project – Supplemental Questions #1

Name	Team #
	Team Name
Section #	
	Other Party #
Project #	Other Party Name

Please respond to the following questions based upon your interpretation of the elements that contributed to setting up the negotiation.

- |                                                                              |                      |   |                         |   |   |   |   |
|------------------------------------------------------------------------------|----------------------|---|-------------------------|---|---|---|---|
|                                                                              | Totally<br>Dependent |   | Not at All<br>Dependent |   |   |   |   |
| 1. How dependent are you on this supplier/customer for this product/service? | 1                    | 2 | 3                       | 4 | 5 | 6 | 7 |
- 
- |                                                                                                                        |                      |   |   |   |   |              |   |
|------------------------------------------------------------------------------------------------------------------------|----------------------|---|---|---|---|--------------|---|
|                                                                                                                        | Disastrous<br>Effect |   |   |   |   | No<br>Effect |   |
| 2. If the other party were no longer available as a channel participant, what effect would this have on your business? | 1                    | 2 | 3 | 4 | 5 | 6            | 7 |
- 
- |                                                                                         |                   |   |   |   |   |                       |   |
|-----------------------------------------------------------------------------------------|-------------------|---|---|---|---|-----------------------|---|
|                                                                                         | Very<br>Difficult |   |   |   |   | Not Very<br>Difficult |   |
| 3. How difficult would it be to replace the other party with another supplier/customer? | 1                 | 2 | 3 | 4 | 5 | 6                     | 7 |
- 
4. What percentage of your total need for this item/service is provided by this supplier/customer? \_\_\_\_\_ %

## Negotiation Project – Supplemental Questions #1

- |                                                                                                                                            | <b>Strongly<br/>Agree</b> |   | <b>Strongly<br/>Disagree</b> |   |   |   |   |
|--------------------------------------------------------------------------------------------------------------------------------------------|---------------------------|---|------------------------------|---|---|---|---|
| 5. If you decided to stop dealing with this supplier/customer, there are many competitive suppliers/customers for this item/service.       | 1                         | 2 | 3                            | 4 | 5 | 6 | 7 |
|                                                                                                                                            |                           |   |                              |   |   |   |   |
|                                                                                                                                            | <b>Strongly<br/>Agree</b> |   | <b>Strongly<br/>Disagree</b> |   |   |   |   |
| 6. I can't afford to worry about other party's profits if my firm is to remain competitive in its own markets.                             | 1                         | 2 | 3                            | 4 | 5 | 6 | 7 |
| 7. I look out for my firm; other firms have to look out for themselves.                                                                    | 1                         | 2 | 3                            | 4 | 5 | 6 | 7 |
| 8. I try to consider the other party's point of view and the impact that any proposed contract would have on its profitability.            | 1                         | 2 | 3                            | 4 | 5 | 6 | 7 |
| 9. My job is to obtain the lowest possible total cost to my firm whether or not the other party will be able to make a profit on the deal. | 1                         | 2 | 3                            | 4 | 5 | 6 | 7 |
| 10. I try to make certain that other parties make a reasonable return on my firm's business.                                               | 1                         | 2 | 3                            | 4 | 5 | 6 | 7 |

## Negotiation Project – Supplemental Questions #2

Name	Team #
	Team Name
Section #	
	Other Party #
Project #	Other Party Name

Please answer the following questions based upon your interpretation of how the negotiation progressed.

- |                                                                                                                                                                              | Never |   |   |   |   |   | Extremely<br>Often |  |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|---|---|---|---|---|--------------------|--|
|                                                                                                                                                                              | 1     | 2 | 3 | 4 | 5 | 6 | 7                  |  |
| 1. How often did your team offer to give favors, rewards, or benefits to the other party?                                                                                    | 1     | 2 | 3 | 4 | 5 | 6 | 7                  |  |
| 2. How often did your team twist the other party's arm in order to obtain their agreement on an issue?                                                                       | 1     | 2 | 3 | 4 | 5 | 6 | 7                  |  |
| 3. How often did your team indicate to the other party that they would gain your respect or approval if they complied on an issue?                                           | 1     | 2 | 3 | 4 | 5 | 6 | 7                  |  |
| 4. How often did your team threaten to give competitors preference over the other party in negotiations?                                                                     | 1     | 2 | 3 | 4 | 5 | 6 | 7                  |  |
| 5. In order to get the other party to agree on an issue, how often did your team demand that they comply on that issue?                                                      | 1     | 2 | 3 | 4 | 5 | 6 | 7                  |  |
| 6. In order to get the other party to agree on an issue, how often did your team indicate that your personal relationship would worsen if they did not comply on that issue? | 1     | 2 | 3 | 4 | 5 | 6 | 7                  |  |

		Strongly Agree					Strongly Disagree	
		1	2	3	4	5	6	7
7.	The terms of our relationship have been written down in detail.	1	2	3	4	5	6	7
8.	Our expectations of the other party have been communicated in great detail.	1	2	3	4	5	6	7
9.	In coordinating our activities with the other party, formal contractual terms have been developed.	1	2	3	4	5	6	7
10.	The terms of our relationship with the other party have been explicitly verbalized and discussed.	1	2	3	4	5	6	7
11.	The nature of the contract that was developed would best be described as long and detailed.	1	2	3	4	5	6	7



## Negotiation Project – Supplemental Questions #3

Name

Team #

## Team Name

Section #

Other Party #

Project #

**Other Party Name**

**Please respond to the following questions based upon your interpretation of the relationship created with the other party.**

Strongly Disagree

**Strongly Agree**

- |    |                                                                                                                                              |   |   |   |   |   |   |   |
|----|----------------------------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
| 1. | The other party did not mislead us during the discussions in this negotiation.                                                               | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 2. | I am confident the other party did not take advantage of us in this negotiation.                                                             | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 3. | If an important decision needed to be made, I am willing to rely on the other party to make a mutually beneficial decision without my input. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 4. | The other party was flexible when considering the range of solutions necessary to come to a mutual agreement.                                | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 5. | The other party's operational capabilities were a key factor in our decision to negotiate this agreement.                                    | 1 | 2 | 3 | 4 | 5 | 6 | 7 |

### Very Little Information

### Significant Information

- | 6. Please indicate HOW MUCH INFORMATION you shared with the other party during the duration of this agreement. | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|----------------------------------------------------------------------------------------------------------------|---|---|---|---|---|---|---|
|                                                                                                                |   |   |   |   |   |   |   |

- |                                                                                                                                                                                                                                                             | Less than with<br>any other party |   |   |   | More than<br>with any<br>other party |   |   |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|---|---|---|--------------------------------------|---|---|
|                                                                                                                                                                                                                                                             | 1                                 | 2 | 3 | 4 | 5                                    | 6 | 7 |
| 7. Please identify (using a rank order) THE RELATIVE LEVEL OF INFORMATION THAT YOU SHARED with each of the other parties (1=the team that you would share the least information with, 2=the team that you would share somewhat more information with etc.). |                                   |   |   |   |                                      |   |   |
|                                                                                                                                                                                                                                                             | Strongly<br>Disagree              |   |   |   | Strongly<br>Agree                    |   |   |
| 8. We need this relationship with the other party to accomplish our organizational objectives.                                                                                                                                                              | 1                                 | 2 | 3 | 4 | 5                                    | 6 | 7 |
|                                                                                                                                                                                                                                                             | Not at all<br>Tempted             |   |   |   | Very<br>Tempted                      |   |   |
| 9. If midway through this agreement, someone offered you a better deal (over the short term), how tempted would you be to pursue the new deal at the expense of the current relationship?                                                                   | 1                                 | 2 | 3 | 4 | 5                                    | 6 | 7 |
|                                                                                                                                                                                                                                                             | Strongly<br>Disagree              |   |   |   | Strongly<br>Agree                    |   |   |
| 10. If the other party came to us and proposed that both parties invest in a new facility and equipment that would increase OUR operating costs by 10%, we would still consider pursuing the opportunity.                                                   | 1                                 | 2 | 3 | 4 | 5                                    | 6 | 7 |

		Strongly Disagree				Strongly Agree		
11.	Some aspects of our working relationship could be better.	1	2	3	4	5	6	7
12.	Our firm's working relationship with this party has been an unhappy one.	1	2	3	4	5	6	7
13.	The other party is a good company to do business with.	1	2	3	4	5	6	7
		Fair				Unfair		
14.	Considering the roles and responsibilities of each party, how fair are your firm's outcomes and earnings?	1	2	3	4	5	6	7
		Strongly Disagree				Strongly Agree		
15.	This relationship meets or exceeds our expectations.	1	2	3	4	5	6	7

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