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A Conceptual Framework**

B. N
Professor, IIM Calcutta, D
Kolkata

a
rbour Road, Joka P.O.,
ndia

Ch
Assistant Professor, IIM Calcu
Kolkata

d Harbour Road, Joka P.O.,
ndia

&

Rahul Sett
Assistant Professor, IIM Kozhikode, P.O. Kozhikode,
Kerala 673 570, India

Buyer-Supplier Negotiations Following Reported Delivery Failure: A Conceptual Framework

B. N. Srivastava and Chetan Joshi

Indian Institute of Management Calcutta

West Bengal

Rahul Sett

Indian Institute of Management Kozhikode

Kerela

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Abstract

We discuss buyer-supplier negotiations in the context of termination or renegotiation of a contract after reported likelihood of supplier delivery failure. Using regulatory focus theory, learning theory, bounded rationality, and trust building perspectives, we develop a set of propositions regarding the effects of buyers' personality factors, such as, promotion versus preventive regulatory goal focus, and factors external to the buyer like environmental uncertainty, and nature of past relationship experience with the existing supplier on termination or renegotiation of a contract after reported likelihood of supplier delivery failure.

Motivation to terminate a contract typically follows delivery failure notification from the supplier stating its inability to provide the required quantity and/ or quality of goods or services within the stipulated deadline. Implications of such notification can be far reaching; impacting the buyer-supplier relationship and the way the buyer negotiates with the existing supplier or any other prospective suppliers in the future. Though motivational orientations play a vital role in

(Bakan,1966; Markus & Kitayama, 1991; Parsons, 1949; Triandis, 1989). Shweder and Bourne

complex decision making issue of termination and negotiation of a new contract after reported likelihood of supplier delivery failure in buyer-supplier negotiations. We attempt to fill this gap.

Buyer-supplier interactions in negotiations or alliance formations involve decision making under various degrees of geographical separation, technological complexity, and artifacts past relationship. Apart from affecting decisions independently, such environmental factors external to the buyer may amplify or attenuate buyers' natural motivational orientations. For instance a success (failure) feedback motivates promotion (prevention) oriented decision makers

of deadline, or retention of relationship with the same supplier with either some cost escalation or with extension of deadline but no cost escalation.

We enrich negotiations research by adopting a holistic perspective of decision making in proposing the interaction linkages of buyers' personality (i.e. regulatory goal focus) together with the elements of the task environment. This approach incorporating all the elements of a decision task, namely the buyer, the supplier, and the characteristics of task environment, exhaustively captures the relational dynamics in a buyer-supplier relationship (Bettman, Luce, & Payne, 1998; Gelfand et al. 2006; Tversky and Kahneman, 1981). Furthermore, our approach is also an attempt to bring adequacy by capturing the relational dynamics in negotiation research, considered as an important area of research by many researchers (Greenhalgh & Chapman, 1995; Greenhalgh & Gilkey, 1993; and Kolb & Coolidge, 1991).

The Proposed Model

The conceptual model is presented in Figure 1 below. The model incorporates the principal cognitive factor of regulatory focus of decision making goals in a given negotiation impacting the negotiation decision outcomes viz. (a) early termination of current contract and negotiation with another supplier with some cost escalation but without relaxation in delivery deadline, (b) early termination of current contract and negotiation with another supplier with relaxed delivery deadlines but with no cost escalation, (c) no termination of current contract and renegotiation with relaxed delivery deadline but without cost escalation, or (d) no termination of current contract and renegotiation with some cost escalation but without relaxed delivery deadlines. The model also considers a possible moderating role of buyer's past experience with the supplier affecting the strength of relationship between regulatory focus goal and negotiation decision outcomes. Finally, the model incorporates the environmental uncertainty, technological

uncertainty and local-international context as contingency factors moderating the effect of regulatory focus goals and negotiation decision outcomes. Each of these linkages is now discussed in detail with suitable research propositions.

Insert Figure 1 about here

Promotion and Prevention Focus on Negotiation Related Decision Making

Economic view of organization believes that buyers and suppliers like all other individuals are rationally bounded; their working memory and cognitive capacity to process information are limited (Simon, 1955). Their preferences are thus contingent on a variety of factors like contract framing (Bettman, Luce & Payne, 1998; Kahneman & Tversky, 1979; Weber et al., 2011), apart from their personality and cognition factors. Besides limited cognitive capacity to process information, the contingent nature of preferences is attributed to the existence of multiple goals which buyers try to attain through decision making (Bettman et al. 1998). For instance, a buyer may attempt to enhance his/her career prospects by taking a deal to fruition, quickly, by taking risks, which he/she would not have taken otherwise if he/she were concerned about broader organizational objectives. Also, behavioral theory of the firm does point out the notions of uncertainty avoidance as well as uncertainty absorption alongside the concepts of psychological issues of attention to goals and quasi resolution of conflict (Cyert & March, 1992). More importantly, psychological theories highlight the fact that the **process** of goal attainment affects the choice and evaluation of options, all else remaining same (Avnet & Higgins, 2006). In fact, certain buyer dispositions or process orientations may even alter the degree of satisfaction individuals derive out of a decision outcome (Aaker & Lee, 2001). Avnet and Higgins (2006)

observed that the value buyers ascribed to their final choice of product or the decision outcome was higher when the buyer approached the decision task in a manner consistent with his/her regulatory focus or their proclivity towards attaining the goal.

Fundamental to goal oriented decision making is the principle of self regulation. Regulatory focus theory goes beyond the hedonic principle of approaching pleasure and avoiding pain in self-regulation by throwing light on the underlying process of such approach and avoidance strategies (Higgins, 1997). In this regard, Higgins and colleagues differentiate between two distinct self-regulatory orientations - promotion and prevention focus - which state how individuals approach their desired end states or goals.

Buyer's promotion orientation is an individual's inclination towards approaching an ideal outcome in decision making. Prevention orientation, on the other hand, is an inclination towards

promotion oriented buyers the prospect of a fruitful future relationship with a supplier may become more important than previous unsatisfactory relationships that the buyer may have had with the supplier. Herein the prospect of a successful relationship and the expectation of an ideal outcome out of the deal with a supplier may, for instance, serve as a justification for a promotion focused buyer. The converse will be true for prevention focused buyers. Thus buyers' regulatory focus may substantially affect how they view a decision task and their approach towards negotiations, an area of research deemed important by social psychologists as well as scholars working in the field of buyer-supplier negotiations (Gelfand et al., 2006). Regulatory focus of goals also makes persons sensitive to gain-loss information. While promotion oriented buyers are sensitive to gains, the prevention oriented buyers are more sensitive to losses. For example, any cues of potential gain and likelihood of profits will propel promotion oriented persons to such goal directed behaviors whereas any inkling of likely loss would propel prevention oriented buyers to preempt any such goal inhibitory move from the opposite party.

Buyer's regulatory focus may represent chronic or stable personality traits, or they may be induced by methods like contract framing and designing (Weber et al. 2011; Argyres & Mayer, 2007). These ideas are, however, not inconsistent; they are in line with the fact that certain psychological traits like self view are malleable and may reflect chronic as well as transient tendencies (Aaker 1999). In this context, we consider the more stable representation of buyer's chronic regulatory orientation. As mentioned earlier, promotion focused buyers are oriented towards achieving ideal outcomes and are motivated towards attaining the same. While the decision tendency to extend a contract implies an inclination towards achieving something ideal, a tendency to terminate an ongoing relationship reflects an orientation towards prevention of expected negative outcomes by assuring the required minimum or mere conformance to the

set specifications of a contract (Weber et al., 2011). There is also evidence that buyers are guided and persuaded by their regulatory focus in consumer choice decisions (Lee and Aaker, 2004; Pham and Avnet, 2004).

Prevention focused buyers as compared to promotion focused buyers are concerned more with the substantive or tangible information pertaining to a task (Keller, Lee, & Strenthal, 2004). For instance prevention focused buyers may be more concerned with the cost implications of a deal as compared to promotion focused buyers. Moreover, given that prevention focused buyers are guided by safety and security, they may view cost as an expense as opposed to an investment. Promotion focused buyers on the contrary, being driven by the need for nurturance, may view the extra cost burden as an investment towards achieving an ideal end state (Higgins et al., 1994). Viewing cost as an expense versus an investment is also consistent with the differential temporal perspectives which prevention and promotion focused are observed to exhibit in decision making (Pennington & Roese, 2003). Cost while viewed as an expense appears as an immediate concern, cost viewed as an investment or an outlay with returns accruing in the future is consistent with a temporally distant perspective. A distant temporal perspective of cost is consistent with promotion focus and an immediate expense perspective of cost is consistent with a buyer's prevention focus (Pennington & Roese, 2003). A distant temporal perspective of cost may also undermine the pain associated with the immediate expected outlay that buyers may expect in negotiating as all future outlays appear less severe as compared to immediate ones even though they are financially equivalent (Soman et al., 2005). Thus promotion focused buyers may view cost as an investment, and prevention oriented buyers may view cost as a matter of immediate concern. Consequently, we propose:

Proposition 1a: Promotion focused buyers will have a greater tendency to extend the

deadlines and absorb extra cost burden in a contract with the current supplier as compared to prevention focused buyers.

Proposition 1b Prevention focused buyers will have a greater tendency to terminate the contract with the current supplier and negotiate with another supplier at same or higher price as compared to promotion focused buyers.

Though the decision to terminate characterizes both the dependent variables, finer comparison reveals that they differ in a very important way. A decision to negotiate while accepting the same or an unfavorable higher price sustains prevention focus of the buyer who is naturally vigilant against losses or unfavorable outcomes having immediate implications. A decision to extend the deadline refers to a temporally distant event with future implications which does not fall into prevention oriented buyers immediate concerns. Thus we expect the effect of prevention focus on termination tendency to be significantly lower if not absent with respect to the decision of extending the deadline following termination. Moreover, a termination clause of any kind does not conform to the motivational orientation of nurturance for promotion focused buyers. Thus we expect:

Proposition 1c. The tendency to

operates under the most uncertain environment. Weber et al. (2011) established that with greater geographical distance, the buyer-supplier contract is more likely to contain an extendibility clause versus a termination clause. The authors posit that with increasing geographical distance duration safeguards plays an increasingly important role with the parties involved in the exchange having greater tendency to use the contract to interpret each others' intentions. This increased tendency to interpret implies that the buyer becomes increasingly cautious and vigilant towards a supplier's intentions as geographical separation increases. Also enactment process (Weick, 1969) in low and moderate uncertainty environments presents greater amenability to anticipate and pro-act to deal with fluctuations in demand supply in order to absorb the cost escalation and margin squeeze. R&D firms however face the unknown unknowns which may overturn the costs completely by reworking and fresh experiments and tests adding to insurmountable cost and time burden. R&D task environments are characterized by long-term time orientation, high interpersonal orientation and less formality whereas operations environments are characterized with short-term time orientation, high task orientation and high formality (Lawrence & Lorsch, 1967). Thus we hypothesize:

Proposition 2: Buyers will show greater tendency to (a) terminate the contract with the current supplier and negotiate with another supplier at same or higher prices, and (b) terminate the contract with the current supplier and negotiate with another supplier with extended deadlines when dealing with suppliers from a low uncertain environment, e.g. domestic furniture firm, or a moderate uncertain environment, e.g. domestic R&D firm as compared to the suppliers from high uncertain environments represented by foreign/global R&D firm.

Interaction between Regulatory Focus and Environmental Uncertainty

A prevention oriented duration safeguard or

2002). As mentioned before, promotion oriented buyers are more concerned with higher level construals or abstract ways of thinking on top of adopting a distant temporal perspective in decision making (Lee et al., 2000). Consistent with this is promotion focused buyer's lesser risk aversion. Thus they may focus more on the positive aspects of a contract with a global supplier: for instance, the possibility of having an improved product or access to new technologies as compared to prevention oriented buyers (Lee, Keller, & Strenthal, 2010). Prevention oriented buyers on the other hand will be more focused on lower level construals or on the concrete and substantive aspects of a contract. For instance they may be more concerned with the expected rise in cost due to the environmental uncertainty consequent of the lack of ability to monitor the supplier (Lee, Keller, & Strenthal, 2010; Förster & Higgins, 2005). Consequently we expect:

Proposition 3a: With increasing environmental uncertainty, prevention oriented buyers have a greater tendency to terminate the contract with the current supplier and negotiate with another supplier at same or higher prices as compared to promotion oriented buyers.

Proposition 3b: With increasing environmental uncertainty, prevention oriented buyers have a greater tendency to terminate the contract with the current supplier and negotiate with another supplier with extended deadlines as compared to prevention oriented buyers.

Buyer's Past Relationship Experience with the Supplier

Relationship building is the first major element in negotiations. Past experiences build this relationship and positive experiences obviously lead to better and sustained long term relationship whereas negative experiences are likely to contribute to conflict, strain and break-down of relationship. The connective tissues of trust, forbearance and reciprocity are

strengthened by such positive experiences and propensity to opportunistic behaviors is restrained

when they have had occasional negative past relationship experiences with the supplier than when they have had no negative past relationship experiences or no past experience.

Interaction between Environmental Uncertainty and Buyer's Past Relationship Experience with the Supplier

Based on discussions in preceding sections, we can extrapolate that the buyers in more uncertain environments would search for alternative resolutions or quasi-resolution of such conflict-prone delivery problems by uncertainty avoidance and uncertainty absorption factors, such as, the nature of past relationship experience. Learning theory as well as developmental perspectives (Argyres & Mayer, 2007; Nonaka & Takeuchi, 1994) suggest that organizational memory through long term accumulated past experiences acts as a facilitator in uncertainty absorption whereas occasional negative experience or no past experience may act as inhibitor or uncertainty absorption and may rather direct buyers toward uncertainty avoidance. In dealing with low or moderately uncertain environments, buyers may be more cautious and vigilant and monitor the exchanges with suspicion in case of no experience or occasionally negative past experiences with the supplier. In high uncertain environments, no negative past relationship experience is indicative of their trustworthiness and would be less suspected in such delivery conflict situations. We therefore hypothesize:

Proposition 6a: In dealing with suppliers from low uncertainty environments, e.g. domestic firm or moderate uncertain environments, such as, domestic R&D firm, buyers will show greater tendency to (a) terminate the contract with the current supplier and negotiate with another supplier at same or higher prices, and (b) terminate the contract with the current supplier and negotiate with another supplier with extended deadlines

when they have no past experience (new firm) or occasionally negative past experience with the supplier than when they have had no negative past experience.

Proposition 6b: In dealing with suppliers from high uncertainty environments, such as, foreign/global R&D firm, buyers will show greater tendency to (a) terminate the contract with the current supplier and negotiate with another supplier at same or higher prices, and (b) terminate the contract with the current supplier and negotiate with another supplier with extended deadlines when they have no past experience (new firm) or occasionally negative past experience with the supplier than when they have had no negative past experience.

Prevention oriented buyers may be more concerned to safeguard the delivery problems by uncertainty avoidance approach and this tendency should be more marked in low or moderate uncertainty environments and where they have either no past experience or occasionally negative experience with the suppliers. Promotion oriented buyers are more likely to salvage the conflicting delivery problems by uncertainty absorption and should therefore be less reactive to termination decision especially when they have even occasional negative or no past experience with the supplier from more complex environments as compared to low or moderate uncertainty environments. We thus expect that promotion and prevention focused buyers would respond differently to the combined situations of low/moderate/high task uncertainty and no. occasionally negative / no negative past experience. There is however inadequate basis to hypothesize precisely how three factors would interact. We can simply hypothesize:

Proposition 7: Prevention and promotion focused buyers would show the tendency to (a) terminate the contract with the current supplier and negotiate with another supplier at

same or higher prices, and (b) terminate the contract with the current supplier and negotiate with another supplier with extended deadlines under different conditions combining past relationship experience with the supplier and in dealing with three types of levels of environmental uncertainty

Discussion

In this paper, we address how buyer's regulatory goal focus and elements of the task environment affect the negotiation decision outcomes in buyer-supplier negotiations. We were specifically interested in buyer-supplier negotiations that happen when suppliers report inability to complete the delivery of goods or services within the deadline and/or demand revision of price of goods or services due to various constraining contingencies in the current business environment, e.g. rise in cost of materials, shortages or fluctuations in supply of raw materials, labor unrest, etc. In the context of such negotia

We believe that research on buyer-supplier relationships benefits from our work for at least three reasons. First, while

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Figure 1: A Conceptual Model Indicating the Role of Personality Factors, Buyer’s Past Experience with Supplier, and Environmental Uncertainty on Buyer-Supplier Negotiations Following Reported Delivery Failure.

