

INCREASED UNDERSTANDING OF BUYER-SELLER NEGOTIATIONS (B2B)

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ABSTRACT,

Purpose: *The purpose of this study is to understand if there is a link between the receipt of a variable pay component and negotiation preparation and negotiation behaviour*

Design/Methodology/Approach: *This study was conducted using 7 interviews with purchasers from 5 different companies mainly in the manufacturing industry*

Findings: *Purchasers use a variety of different preparation methods that are mainly influenced by the type of negotiation they are going to enter. No evidence was found in this paper that concludes that negotiation behaviour is affected by the use of variable pay, the purchasers in this study all used a mix of integrative and distributive negotiation behaviour.*

Research limitations/implications: *This research shows that the use of variable pay does not directly influence the negotiation behaviour and preparation of purchasers. The sample size of this study however was small, so further research is necessary.*

Practical Implications: *This study offers an insight into the link between variable pay and negotiation preparation and behaviour, something that has been studied individually in the past, but the link has not received much attention in literature.*

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Keywords

Variable pay, negotiation preparation, negotiation behaviour, principal agent theory, B2B negotiations

1. INTRODUCTION

Business to business (B2B) negotiations have received wide attention in literature, as well as the effects of different negotiation tactics and behaviour (At-Twajiri, 1992; Cheung, Chow, & Yiu, 2009; Perdue, Day, & Michaels, 1986; Sigurdardottir, Ujwary-Gil, & Candi, 2018). With more than half of every sales dollar being spent on purchasing goods and services, firms have a strong motivation in understanding buyer-supplier negotiations (Clopton, 1984).

Both Clopton (1984), and Weingart et al. (1990) show that negotiation behaviour has an effect on the results of a negotiation. The use of coordinative behaviour, using problem solving skills, resulted in the best joint outcomes, while the use of competitive behaviour resulted in a buyer obtaining the highest profits in a negotiation (Clopton, 1984). Negotiation behaviour is differentiated into two differing ideologies in literature, the first is integrative behaviour and the second is distributive behaviour, both will be discussed in the literature review section. Integrative negotiation behaviour is when a negotiator seeks a win-win situation rather than the win-lose situation in distributive behaviour (Fleming & Hawes, 2017).

Research has also been conducted in the field of variable pay (VP), more specifically the use of financial incentives to reward strong performance by employees (Damiani, 2014; Murnighan, Babcock, Thompson, & Pillutla, 1999). Damiani (2014), for example mentions that firms oriented towards long term relationships with their employees often use VP schemes to foster commitment towards the firm. Coletta (2013), in his paper finds that VP is used to compensate against the diverging interests between the principal and agent also known as the agency theory. Agency theory states that due to the separation of ownership and control in an organisation, decision making power is delegated to employees (agents), to ensure that these agents do not act in their own self-interest, but rather in the interest of the organisation (principal) some sort of control mechanism needs to be implemented (Rashid, 2015).

B2B negotiations and VP have both received attention in literature separately, the effect that VP has on B2B negotiations is however not abundantly represented in literature. This effect is important to understand in order to find out if the use of VP influences negotiation behaviour.

The aim of this paper is to understand the effect that financial incentives such as VP have on the outcome of B2B negotiations. Specifically, the effect that variable pay of purchasers has on the negotiation behaviour they exhibit during negotiations with suppliers. In addition to the negotiation behaviour the negotiation preparation will be looked at to see whether or not there is a change in preparation with regards to VP.

In order to answer the research objectives laid out, the following questions have been developed:

RQ1: How does variable pay affect negotiation behaviour?

RQ2: Do negotiators who do not receive variable pay have a preference toward integrative negotiation tactics?

The assumption here is that variable pay will have an effect on negotiation behaviour by leading negotiators to act more

aggressively in their own interests. This assumption stems from a finding by Coletta (2013), who as mentioned above states that VP is used to compensate against diverging interests between principal and agent. The interest of the company (principal) is to have the best negotiated deal possible. The above research question is aimed at finding qualitative evidence to support or refute this statement.

To better understand what effect VP has on preparation a third question was developed.

RQ3: Does receiving VP have an effect on how negotiators prepare?

The paper will start with a literature review to get an overview of the topics that have been studied with regard to negotiation behaviour and VP. The focus in the literature review will be to understand the relevant topics used in this paper.

After the literature review, the methodology used in this paper will be explained. In the findings section of the thesis, an overview of the interviews will be given, including some general information about the interviewee and the findings from each interview. The findings will then be analysed using the comparative method to show each interview and the results in a tabular form. Based on these results the research question will be answered. Finally, the thesis will be concluded, limitations and ideas for future studies mentioned.

2. LITERATURE REVIEW

The literature review will focus on identifying past research in the relevant topics for this thesis in order to understand the relevant concepts. The topics of negotiation behaviour, preparation and the concept of VP will be discussed independently in this section. The connection of the topics will be discussed more closely using the data collected for this thesis.

2.1 Business to business negotiations between purchasers and suppliers.

B2B negotiations take place between two or more willing parties who show an interest to exchange utilities for resources (Sigurdardottir et al., 2018). Harwood (2006) defines negotiations as “a process that is entered into by parties who wish and are able to reach a mutually satisfactory solution on the division of issues of common interest but on which they currently conflict”. There are different types of negotiations, Brett (2000) mentions 2 different types. The 2 types mentioned by Brett (2000) are transactional negotiations and negotiations directed at the resolution of conflict. For this thesis the transactional negotiation is of importance. Conflict between negotiators may arise due to the difference in preferences of negotiators, this can for example come in the form of a supplier expecting a higher price than the buyer is willing to pay. Negotiators in transactional negotiations try to identify whether or not it is more favourable to negotiate despite the conflict than it would be to negotiate with an alternate supplier (Brett, 2000). For a better understanding of negotiations it is important to understand the use of power in negotiations, power is the ability to make the other party concede when the other party prefers not to (Ury, Brett, & Goldberg,

1988). In transactional negotiations, power usually comes in the form of economic power of alternatives (Emerson, 1962). The party with the best alternative to negotiated agreement is the one with the most power (Brett, 2000).

Lempereur and Pekar (2017) mention that the negotiation process is about managing the different demand and supply solutions. This can be difficult as the managers need to fulfil the expectations of multiple stakeholders during the negotiation.

In most B2B negotiations, the negotiators negotiate on the behalf of others and are referred to as representatives or agents (Rubin & Sander, 1988; Walton & McKersie, 1991). The conflicting interests that may arise between the principal (the business) and the agent (the negotiator) will be discussed later on in the literature review.

A further important aspect that needs to be identified is negotiation experience. Purchasers make purchasing decisions under the potential risk that they may procure goods and services that may have a high cost and poor quality. To counter these risks the buying firm must rely on the experience of the purchaser. The knowledge and the knowhow of the purchasers is important for the firm to maintain high quality B2B negotiations (Lee & Kwon, 2006). Murnighan et al. (1999) found that informed negotiators with experience outperformed their uninformed counterparts. The informed and experienced negotiators also did well in achieving maximum joint outcomes, something the inexperienced negotiators did less well at (Murnighan et al., 1999).

2.2 The 5 dominant styles of negotiation behaviour

Thomas (1992) mentions 5 dominant styles of negotiation in his paper. The 5 dominant styles are different iterations of 2 main factors, assertiveness i.e. the degree to which a person wants to fulfil their own desires and cooperation i.e. the degree to which a person wants to satisfy the needs of the other (At-Twaijri, 1992; Kilmann & Thomas, 1977).

The 5 dominant styles are:

1. *Competitive*: In this style the negotiator attempts to win his or her own concerns at the opponent's expense. This type of negotiation is also known as a win-lose style where the buyer advances his/her position relative to that of the supplier (Perdue et al., 1986). Rahim (1983) calls this type of relationship as "dominating".
2. *Accommodative*: Here the purchaser tries to fully satisfy the needs of the supplier without tending for his/her own needs. This is a self-sacrificing style where the purchaser looks for a good relationship with the supplier at his/her own costs (At-Twaijri, 1992). Rahim (1983) refers to this relationship as "obliging".
3. *Compromising*: This style of negotiation is a middle of the road approach of the above-mentioned styles. Here the purchaser aims at partially satisfying the needs of both the purchaser and the supplier. The purchaser tries to split the difference with the seller (Perdue et al., 1986).
4. *Collaborative*: In this style of negotiation the purchaser tries to fulfil both his/her needs as well as the needs of the supplier (At-Twaijri, 1992). This approach is a problem-solving style in which the purchaser's main objective is to maximise the joint gain of both involved parties (Perdue et al., 1986). Rahim (1983) calls this type of style "integrative".
5. *Avoidant*: In this negotiation style the purchaser is indifferent to the concerns of either party. It is also known as the withdrawal style in which the purchaser avoids confrontation with the supplier (Perdue et al., 1986).

According to Brett (2000) the negotiation behaviour can be separated into 2 distinct categories. They are distributive negotiation behaviour and integrative negotiation behaviour. Distributive negotiation behaviour is characterised as using gamesmanship, nerve and aggression, while integrative negotiation behaviour is characterised by problem solving abilities, enhanced understanding and creativity (Barry & Friedman, 1998).

The paper by Sigurðardóttir et al. (2019) identified that aggressive tactics were used more frequently in B2B negotiations, challenging the idea that B2B negotiations favour tactics that promote long term relationships. Purchasers frequently use positional information during negotiations indicating that purchasers perceive B2B negotiations as distributive rather than integrative.

2.3 Variable pay as a tool for improved employee performance

VP is defined as pay that is tied to some measure of an employees' output (Lazear, 2000). Heywood and Wei (2006) mention that performance pay schemes are thought to generate increased productivity among employees. The explanation for this is that employees perceive the effort to "cost" less than the increased earnings from the VP scheme. The positive effect that variable pay has on employee performance has also been shown by Gerhart et al. (2009).

It is suggested that employees prefer to work in environments they see as rewarding for their productivity and therefore, these environments see increased worker optimism (Brown & Sessions, 2003).

VP can be differentiated into two different categories, the first is individual incentives, here employees are rewarded for their own effort. In collective incentives the performance related pay is offered according to the group performance (Damiani, 2014). Employers benefit from using VP as it generates long term relationships with their employees (Damiani, 2014), as well as counteracting the principal agent conflict that can arise. The agency theory describes that due to the separation of ownership and control, corporations delegate decision making power to employees (agents). In order to ensure that these agents work in the best interest of the firm (principal), they need to be restricted by some method (Rashid, 2015).

A large part of literature on VP is grounded in the concept of the principal agent theory (Damiani, 2014). An agency relationship has arisen between two or more parties when one individual, designated the agent, is assigned to act on behalf of or as a representative for the other, designated the principal (Poth & Selck, 2009). Poth and Selck (2009) further state that the key assumption in the agency theory is that the principal and the agent have potentially conflicting objectives. The principal agent theory recognizes this divergence and prompts the principal to construct incentive contracts to measure and compensate against this divergence of interest (Coletta, 2013).

In addition to using VP to compensate against diverging interests it is also frequently used to shift financial risk away from the principal toward the agent. Organizations that are particularly turbulent choose to use VP strategies to shift the risk to the agents of the organization (Stroh, Brett, Baumann, & Reilly, 1996). A prime example of an organizational risk when it comes to purchasing is the risk that buyers leave negotiations with poor prices and/or quality. VP can be used in these cases to protect the firm as it is in the purchaser's best interest to negotiate the best possible deal as he/she directly financially benefits from it.

VP does however also have some unintended consequences that need to be mentioned. One of these consequences is task focus, here individuals single-mindedly engage in those activities that directly reward the employee, while ignoring other important but less tangible aspects of the job (Campbell, Campbell, & Chia, 1998). A study by Pearce, Stevenson, and Perry (1985) found no supporting data for the advantages of implementation of merit pay.

3. Methodology

3.1 Qualitative data collected through interviews at 5 different organisations

	Industry	Size
Company 1	Automotive	15,000 Employees
Company 2	Automotive	300,000 Employees
Company 3	Metal Industry	14,000 Employees
Company 4	Semiconductor	23,000 Employees
Company 5	Cutting Tool/ Metal Industry	9,000 Employees

Figure 1: Purchaser Information

The data used in this thesis is of qualitative nature, it was collected through a series of interviews with purchasers located in The Netherlands, Germany and Austria. The purchasers are from 5 different firms in the manufacturing industry. One interview was conducted with a purchaser of company 1, 2 and 4 while two interviews were conducted with purchasers from company 3 and 5.

Company 1, 2 and 5 are located in Germany while 3 is located in Austria and 4 in the Netherlands. The employees interviewed receive differing payment structures, allowing for the comparison in negotiation behaviour between the differing VP schemes and those employees who do not receive a VP component.

The interviews were all conducted in English and lasted between 30 and 40 minutes each.

Questions in the interview guide (see appendix A) are based off the questionnaire previously used by Saorín-Iborra and Cubillo (2019) and Geiger (2017). In order to receive the relevant data for this thesis the questions were adapted to the topic of this thesis.

The interviews were started with a set of background questions to gain information on the individual, his/her educational and professional background as well as some information on the firm that they work for.

These questions were followed by questions on negotiations, specifically the interviewees opinions on negotiations. The next section focused on the interviewee's negotiation preparation and the negotiation process itself. After these questions, the interviewees were asked questions about their negotiation behaviour, this was a mix of open questions and questions about how likely they were to use a specific tactic. A few questions were then asked about the agency problem followed by questions on the use of VP at the firm. The final set of questions was then asked relating the satisfaction of both the interviewee and the suppliers they negotiate with.

The interviews were held via videoconferencing tools and phone calls in May 2020. Once the interviews had been conducted, they were transcribed. Once the relevant information had been extracted from the interviews they were compared using the comparative method analysis (Biernacki, 1989; Ragin, 1987).

3.2 Interviews at companies ranging from the automotive sector to the semi-conductor industry

Company 1 operates in the automotive industry, primarily producing components for chassis, body components and drivetrain components. In addition, it produces components for the aerospace industry and the manufacturing industry.

The company employs roughly 15,000 people in 45 countries. Components for the firm are currently sourced from about 5000 suppliers located around the world.

The first interview was conducted with the global head of purchasing of the above-mentioned automotive supplier based in Germany. She has worked at the current company for the past 12 years and occupies the current role for the past 5 years. During the interview she mentioned that she did have 15 years negotiation experience as she was employed in a different sector before switching over to the automotive sector.

In total she is responsible for 1700 suppliers of which around 1000 are located in Germany with the rest being spread across the world

The second company is also active in the automobile industry. It manufactures premium vehicles as well as commercial vehicles.

The German automobile manufacturer employs close to 300,000 people in a variety of manufacturing plants across the globe. With a revenue of close to €200 billion this can be classified as a very large firm.

The interview at company 2 was conducted with the head of purchasing of electronics, he has spent the last 10 years at the company and has been in his current position for the past 3 years.

He is currently in charge of about 200 suppliers, most of these suppliers are here in Europe with about 30% being spread across the rest of the world.

The third company is active in the high-performance metals industry, producing products made of refractory metals such as molybdenum, tungsten, niobium and chromium. Their metals are used in a variety of industries such as the medical, lighting, electronics, and energy transmission and distribution industry.

The company employs 14,000 people in a variety of plants in Europe and around the world.

The interviews were conducted with two members of the supply chain team of the company. They have both worked at the company for a long period of time, one for 10 years while the other has already been there for 12 years. Interviewee 1 has been in his current position for just over 1 year while interviewee 2 has been in his current position for 3 years. Both have negotiation experience.

Interviewee 1 is responsible for 150 suppliers mainly located in Austria, Germany and Switzerland while interviewee 2 is responsible for 30 suppliers located mainly in Asia and North America.

The fourth company is active in the semiconductor industry, photolithography machinery for the production of computer chips. Currently the company employs roughly 23,000 people, they are located mainly in the Netherlands with service points in 16 different countries. With a revenue of just under €11 billion the firm is one of the leaders in the manufacturing of machinery for the manufacturing of computer chips.

The interview was conducted with a component purchaser who has been with the company for the past 5 years and has been in his current position for 2 years. He does have negotiation experience since he started off in purchasing. Currently he is in charge of 150-200 suppliers along with his team. The majority of the suppliers are located in Europe with a few being located in Asia.

Company 5 is in the metal industry producing cutting tools. It is one of the largest manufacturers of hard metals in the world. Currently the company employs 9000 people in over 30 production sites in Europe, Asia and North America. Products include an array of cutting tools used in the automotive industry, the aerospace industry as well as heavy duty machining, the medical and the energy industry.

The interviews at company 5 were conducted with 2 purchasers, purchaser 1 is with the company for the past 3 years, he joined the company in the position as a purchaser for CNC machines. He is responsible for a relatively low number of suppliers as the machinery he buys is highly specialised, currently he has 10 suppliers. Over the past 3 years in his current position he was able to gain some negotiation experience.

Purchaser 2 is with the company for the past 10 years and is in his current position for the past 2 years. He is responsible for purchasing carbide blanks used in the production of cutting tools. He is responsible for a small number of suppliers, in total 5. One of these suppliers is part of the same holding organisation as the buying company so negotiations are very different for this one

supplier. He was able to gain some negotiation experience over the past 2 years in his role as purchaser.

4. FINDINGS

4.1 Different types of VP in the form of fixed VP, percentage VP and no VP

The 5 companies used different approaches to VP, 4 out of the 5 companies offered their employees some form of VP.

One of the companies interviewed used a fixed VP scheme for incentivising its employees. Interviewee 5 mentioned he receives a fixed VP component of €10,000 if he manages to achieve the objectives that are set for him. The amount that is paid out depends on the position at the company and the number of employment years.

Three of the companies offered their employees VP in the form of a percentage of their base pay. For the employees of company 5 the VP component was 20% of their base pay and for the employee of company 2 was 25% of his base pay.

The VP of company 2 is a mix between an individual incentive and a collective incentive. Half of the VP is based on a group target that needs to be achieved, while the second half is based on the individual performance of the purchaser. For company 5 the VP component is based on individual achievements.

Company 1 also offers VP but the interviewee did not want to share the amount that she received. She did however mention that the VP component is negotiated with each purchaser, so they do not have one standardised system like the other companies that were interviewed.

4.2 Negotiation preparation varies based on the type of negotiation

All of the interviewees said that they prepare for negotiations. Interviewee 1 (Purchaser 1) said *“It’s very different, how long it takes because it depends on the supplier. So you wouldn’t spend a lot of time preparing for a small negotiation. You’re going to spend six months, half a year preparing for a big negotiation that has a big business impact”* when asked if she prepared and how long it takes.

	Purchaser 1	Purchaser 2	Purchaser 3	Purchaser 4	Purchaser 5	Purchaser 6	Purchaser 7
Variable Pay	X	X			X	X	X
Preparation Methods	7	5	4	5	5	4	4
Product and Market analysis	X	X	X	X	X	X	X
Identifying players	X			X			
Uncovering points of issue	X	X	X	X	X	X	X
Identifying interests	X	X	X		X	X	X
Understanding options	X			X			
Conflicts and solutions	X	X			X		
Planning and communications	X	X	X	X	X	X	X

Figure 2: VP and negotiation preparation (X= uses)

Purchaser 1 uses all of the 7 preparation methods mentioned in the literature review.

The preparation consists of doing market research on the supplier, an analysis of the product that they are selling, and the cost of the product. She mentioned that she would do as much research as the time would allow, if she has very little time, she will do a *“broad check and search”* of the market. There are no standardised preparations, the process is very different, although she prefers to work with existing suppliers as this makes her preparations significantly easier. A supplier that you have

already worked with already knows the needs of the firm and as a purchaser it is also easier as the quality, delivery reliability and price ranges are also already known making the preparation easier.

For her the most important characteristics for a potential supplier are that they are reliable, they have good quality, appropriate prices and good delivery times.

In case the negotiations fail the interviewee does not usually have an alternative offer unless the negotiation is for strategically important parts.

Preparation for a negotiation by purchaser 2 consists of doing research on the product of the potential supplier. In addition to research on the product a market research is done on competing products to build a baseline for what the product should look like and what price ranges can be expected. Other aspects that are researched include the quality, delivery reliability and speed and in some cases the capacity of the firm to deliver their product. His preference when asked whether new or existing suppliers are preferred was the use of existing suppliers. The advantage of using existing suppliers is that there is significantly less risk for the organisation. Quality standards are known, the delivery reliability is known, and there is usually already a built-up relationship between purchaser and the supplier making negotiations and problem solving much simpler.

When asked whether or not he looks at supplier preferences and if he scores them, he says *"I don't look at the preferences and score them, I keep them In the back of my mind though so it's a yes and no"* He looks at potential issues and the conflicts that can arise during the preparation so he is not caught off guard during the negotiation.

The preparation of purchaser 3 is very similar to that of purchaser 2. Purchaser 3 however does outline the potential areas of common interest and where he expects conflict.

He usually prepares an alternate offer, he says *"... sometimes I have an alternative and sometimes I don't. It also depends on if alternatives are available and what kind of negotiation I'm going to have. The bigger the volume and importance the more important a plan b becomes. Since most of my purchases are strategically important, I would say that I almost always have an alternative if available"*.

Purchasers 3 and 4 although they work at the same company do have some differences in how they prepare for negotiations. Purchaser 4 identifies all the players in the negotiation, that includes not only the opposing negotiator but other stakeholders, he says *"One aspect I find important is to look at who all are involved in the negotiation, so not only the other person but also who they work for and other stakeholders that have influence"*.

Purchaser 5 uses the same negotiation preparation methods as purchaser 2. His preparation time is however the shortest out of all the interviewees. He says he spends around 6-7 hours on the preparation of a negotiation. When asked about standardised negotiation preparation methods he says *"I don't think its possible to have a standardised preparation because you always encounter different problems and issues"*. This is something that can also be seen with the other purchasers, they also do not use a standardised preparation method, but prefer to adapt to the type of negotiation they are going to have.

Purchasers 6 and 7 have identical preparation styles. Both do not use alternative offers, purchaser 7 says *"With so few suppliers I don't have alternatives, but we usually find a way to get what we need"*, while purchaser 6 doesn't use alternatives either.

The characteristics that are looked for in a supplier are very similar across all the purchasers, they all looked for suppliers

with high quality products and a high delivery reliability with very few suppliers putting a strong emphasis on the lowest price.

4.3 Both distributive and integrative negotiation behaviour is used by the purchasers

The purchasers that were interviewed exhibited a mix of the different types of negotiation behaviour, using both distributive as well as integrative behaviour based on the situation that they were in.

	Purchaser 1	Purchaser 2	Purchaser 3	Purchaser 4	Purchaser 5	Purchaser 6	Purchaser 7
Variable Pay	X	X			X	X	X
Distributive behaviour	6	7	4	7	6	7	5
Influence through bargaining power	X	X	X	X	X	X	X
Importance of issues is exaggerated	X	X	X	X	X	X	
Misrepresenting factual information		X		X	X	X	X
Acquiring information by asking around	X	X	X	X	X	X	X
Greater opening demand than negotiation goal	X	X	X	X	X	X	X
conveying false information on time constraints	X	X		X			X
Talking to opponents superior to undermine position	X	X		X			X
Gaining information through payment							
Cultivating friendship through expensive gifts					X		X
Integrative behaviour	3	2	4	2	2	4	2
Trust	X	X	X	X		X	
Free information exchange							
Preference of supplier taken into account	X		X	X	X	X	X
Search for mutually beneficial solution	X	X	X		X	X	X
Personal relationship			X			X	

Figure 3: VP and the use of different negotiation behaviour (X= uses)

The first purchaser uses a mixture of assertive and compromising negotiation tactics during her negotiations with suppliers. She believes in mutual trust between the negotiating parties and consider trust an important factor not only during the negotiation phase but also essential for time after the negotiation when the contracts need to be honoured. This trust mainly focuses on the truthfulness that the supplier can deliver what is promised for the price that is negotiated, and that once a contract is signed that there is no reneging from the supplier.

She did mention that she uses some distributive negotiation tactics on her suppliers during negotiations. The use of bargaining power is frequently used in price negotiations. Of the nine different categories of distributive negotiation tactics she uses five of them and in some cases, she uses one additional tactic making it a total of six out of the nine tactics. The three negotiation tactics she does not use are paying for information and cultivating friendships through expensive gifts and misrepresenting factual information, she considers these tactics to be very unethical.

The mix of assertive and compromising negotiation behaviour is used because she believes that using only assertive tactics will not lead to a successful partnership for the time after the negotiations. Both the needs of the buyer as well as the needs of the supplier need to be maximised in order to maintain a long lasting and strong partnership that benefits both parties. For example it can sometimes be beneficial to pay a slightly higher price but have the security that the supplier will provide high quality components for a long time rather than taking the risk with a low cost supplier who may default on the contract, resulting in a switch in supplier generating additional costs.

The second purchaser uses predominantly assertive negotiation behaviour when interacting with suppliers. He did however mention that the choice in negotiation behaviour heavily depends on the supplier. Suppliers that provide strategically important components need to be approached rather differently than suppliers that provide standard components that can be easily sourced elsewhere.

When it came to negotiate with suppliers for standard components that are widely available on the market, he used seven out of the nine distributive negotiation tactics. The only tactics the interviewee refused to use during the negotiation phase was to pay for information to use against the supplier and the cultivation of friendship through expensive gifts.

For negotiations with strategically important suppliers he uses less distributive negotiation behaviour and instead focuses on generating a solution that benefits both involved parties. He mentions that in these cases it is much more important to build a strong partnership with the supplier. Negotiations breaking down for strategically important parts can be detrimental to the firm which is also why he always prepares alternative offers to ensure a continuous supply of necessary parts.

The interviewee mentioned that he sees trust as a very important factor in negotiations. Negotiating with existing suppliers is easier as a level of trust has already been developed. It is important for the buying organisation to know that the offers made by the supplier in the negotiation are truthful and that the supplier will deliver on its promises. He is aware that during negotiations sometime deceitful actions are taken to gain the upper hand, but he believes that these actions should never have a consequence on the delivered product.

Purchaser 3 prefers to use mainly collaborative negotiation tactics in his negotiations. His negotiation behaviour is influenced by the bargaining power of most of his suppliers. As already mentioned in the section above, his suppliers mainly produce complex components and offer complex services, leading to low numbers of suppliers with their specific expertise. His behaviour is therefore mainly focused on generating a mutually beneficial deal, the use of distributive negotiation tactics may lead to a loss of suppliers that the firm cannot afford. A higher price or a longer lead time are acceptable in some cases for the added benefit of securing a supplier with the right expertise.

Creating personal relationships is important especially when dealing with strategically important suppliers as it makes negotiations smoother as well as the interactions after the negotiations.

Of the nine distributive negotiation tactics he uses four. The tactics he does use are bargaining power with suppliers where this is possible, the exaggeration of importance of issues, gaining information through asking around and making greater opening demands than the goal of the negotiation.

The fourth purchaser uses seven out of the nine distributive negotiation tactics during negotiations with his suppliers. This makes his negotiation style more competitive. His primary goal is to negotiate a deal that is beneficial to his organisation. Since his suppliers mainly provide standard products that can easily be sourced elsewhere the use of more assertive negotiation behaviour is beneficial for the organisation.

He does however believe in establishing trust with his suppliers as much as possible as it is always better to enter a negotiation with a supplier knowing that the opponent will deliver what he/she has promised.

The two negotiation tactics he does not use in his interactions with suppliers is the cultivation of friendships through expensive gifts and paying for information on his negotiation counterpart. He considers both actions unethical and paying for information is forbidden by the firm.

The 5th purchaser used a mixture of distributive and integrative negotiation tactics during his negotiations with suppliers. Of the nine distributive tactics he uses six. Paying for information,

talking to the opposing negotiators superiors to undermine the position and conveying false information on time constraints is not something the purchaser does.

He uses more assertive negotiation tactics with suppliers that provide standardised components while he uses more collaborative tactics with suppliers that provide strategically important components that have a low number of suppliers.

For suppliers that provide strategically important components the negotiation is conducted in such a way that there is the maximum mutual benefit from the collaboration.

Suppliers of standardised components who can easily be replaced by other suppliers are negotiated with using assertive tactics to receive the maximum benefit for the buying organisation in terms of highest possible quality for the lowest possible price. Tactics like misrepresenting factual information or the use of the buying firms bargaining power are used with suppliers of standard products.

Purchaser 6 uses a mix of distributive and integrative negotiation tactics. Of the 9 distributive negotiation tactics he uses seven, the tactics he avoids using are paying for information and cultivating friendships through expensive gift giving.

Since the number of suppliers is limited and the products they supply are highly specialised the distributive negotiation tactics need to be used very carefully in order to not break the relationships that have been built in the past. The tactics that are mainly used are not to force a decrease in the purchasing costs but rather to gain advantages such as shorter lead times or priorities when it comes to service and maintenance.

Importance is laid on keeping strong relationships with the suppliers which is why the purchaser ensures that he does not exclusively use assertive negotiation tactics but also introduced integrative negotiation tactics to foster trust. The only way both firms can work together is if there is mutual benefit, therefore higher purchasing costs are sometimes accepted if it leads to benefits gained in other aspects of the purchase.

The majority of the products that are purchased by purchaser 7 are sourced through the inter-company transaction and therefore require a more collaborative method of negotiation to ensure the relationships between the organisations are not damaged. As the majority of the raw materials purchased are procured through the inter-company transaction the number of distributive negotiation tactics used is limited, he uses 5 of the 9 tactics.

For the products that are procured from external suppliers he uses more distributive tactics than integrative. Here it is important to gain the best possible deal for the organisation. He frequently uses the bargaining power of the firm or the misrepresentation of factual information to force the supplier to agree to terms that are in favour of the buying organisation. Although the number of suppliers for the raw material is limited, so is the number of buyers of the material making the organisations mutually dependent on each other, that combined with the fact that the organisation has access to a secure source of raw materials through the inter-company transactions increases the buying organisations negotiation power.

5. Discussion

5.1 Analysing the results of the interviews using comparative method analysis

Using the findings of the 7 interviews conducted, this section will focus on the analysis of the findings in order to answer the

research questions. The first part of the analysis will focus on negotiation preparation and if VP has an effect on it while the second part of the analysis will focus on the effect that VP has on negotiation behaviour. In order to analyse the data, the comparative method analysis will be used, by first looking at both the preparation methods used, and the negotiation behaviour exhibited and then linking it to whether or not the purchaser receives VP.

This section will also use literature where available in order to see if there is a connection to previous results found in other studies

5.2 No identifiable relationship between VP and negotiation preparation

Looking at Figure 2, there is no clear relationship between a purchaser receiving VP and the preparation method used. The purchasers used the different preparation methods irrespective of them receiving VP. Only 1 purchaser used all 7 preparation methods. Identifying the players is a preparation method that was not used by many purchasers, only 2 purchasers used this. It seems to be the case that most of the purchasers know their counterparts in the negotiations and therefore do not consider identifying who else may be involved in the negotiation, whether that is directly or indirectly. A further method that was only used by 2 purchasers was identifying the options that are available for the purchaser, i.e. where the purchaser can be flexible. Most of the purchasers do not identify the areas where they can be flexible for example in terms of delivery speed or cost. Something that all purchasers used was the identification of points or issues that are likely to cause problems during the negotiation.

On average the recipients of VP use 5 of the 7 negotiation preparation methods while those who do not receive VP use on average 4.5 of the preparation methods.

From the findings it can be suggested that the preparation for negotiations is not based on VP but rather on the type of negotiation that is going to be entered. Negotiations with high purchasing value or purchases of strategically important components have a much more time intensive and thorough preparation process than the negotiations for standard components from existing suppliers. The analysis of the findings therefore shows that from the sample, it cannot be concluded that VP has an effect on negotiation preparation.

5.2 Negotiation behaviour is not clearly dependent on variable pay

From the data collected there is no clear evidence that VP has an impact on the negotiation behaviour of purchasers. Both distributive as well as integrative negotiation tactics are used by both purchasers who receive a VP component and those who do not.

	VP	No VP
Integrative Behaviour	2,6	3
Distributive Behaviour	6,2	5,5

Figure 4: Comparison between negotiation behaviour and VP

From Figure 4 the average usage of the negotiation tactics can be seen for recipients of VP and for those without VP. There is a slight tendency towards using more distributive tactics when receiving VP while there is a slightly higher usage if integrative tactics by purchasers without VP. The averages do not deviate

enough from each other to concretely say that VP has a specific effect on negotiation behaviour. The usage of both distributive and integrative negotiation behaviour was also found in a study conducted by Brett (2000). Two key distributive tactics that all purchasers used was the influence of bargaining power and the gathering of information by asking around in a network of friends and associates. A tactic that none of the interviewed purchasers use is gaining information by paying friends or associates to gather information for them. The use of slightly more distributive negotiation tactics by purchasers who receive VP is supported by research done by Sigurðardóttir et al. (2019) and Murnighan et al. (1999). When it comes to the use of integrative negotiation behaviour there is a slight decreased use for purchasers who receive VP. The difference in usage is not significantly different enough to draw the conclusion that VP has an effect on negotiation behaviour, there may be additional factors that play a role in the choice of negotiation behaviour of purchasers.

5.3 Factors other than VP that may have an effect on negotiation behaviour

When studying the effect of one variable on another it is important to be aware of the fact that there may be other factors that have an influence on the outcome. Correlation does not mean causation (*cum hoc ergo propter hoc*), just because there may be a correlation between VP and negotiation behaviour, in the case of this thesis there is no identifiable correlation, does not mean that one variable causes the other. Other variables have been studied for their influence on the negotiation behaviour (Adair, Okumura, & Brett, 2001; Murnighan et al., 1999; Schurr & Ozanne, 1985).

The level of previous negotiation experience can play a role in the choice of negotiation behaviour. In the interviews conducted all purchasers had some negotiation experience, but this varied wildly amongst the interviewees. The first purchaser that was interviewed had almost 15 years of negotiation experience while other purchasers only just started with as little as 2 years negotiation experience.

The study by Murnighan et al. (1999) showed that experienced negotiators achieved better outcomes than those with little to no experience. The choice of negotiation behaviour is important for the successful outcome of a negotiation, therefore it is irrelevant if the purchaser receives VP or not, if the behaviour is chosen based on previous experience.

The bargaining power of suppliers may also have an impact on the choice of negotiation behaviour. Purchasers that negotiate with highly specialised suppliers of which there are very few on the market are more likely to use integrative negotiation behaviour as it is more likely to lead to successful cooperation. On the other hand, procurement of standardised products for which there is an abundant number of suppliers may lead to a more distributive negotiation behaviour as is exhibited by purchasers 1 and 2.

There are more variables that may have an influence on the choice of negotiation behaviour, these were however not covered in this thesis

5.4 Preparation has no identifiable effect on behaviour

From the information gathered during the interviews there is no discernible link between negotiation preparation and the negotiation behaviour exhibited by the purchaser.

Looking at the industry that the purchasers operate in and how that may affect the preparation and/or the behaviour, there too was no clear link. The assumption could be made that purchasers in the automotive sector use more distributive tactics by leveraging their bargaining power over the suppliers, in this study however this was not evident.

There was also no clear link between the firm size and the preparation methods and negotiation behaviour. The larger firms with more than 20,000 employees did not have significantly different approaches to preparation and negotiation behaviour than the smaller firms in this study.

6. Limitations and further research

A limitation in this thesis is the number of interviews that were conducted. The 7 purchasers may not represent the negotiation behaviour of the whole population of purchasers. Future research is necessary in order to increase the sample size and look for evidence in larger samples to see if VP has an effect on negotiation behaviour. For a better understanding of both the preparation and the behaviour it is also important to take the factor of company size into account, therefore future studies could include a wider variety of larger and smaller firms.

A further limitation of the research is that the interviews were only conducted with purchasers and not with suppliers. Future research should focus on finding evidence of the effect of VP on negotiation behaviour in both sides of a B2B negotiation.

With the current pandemic happening, the interviews were conducted over the phone and via video chat. The interviews over the phone lack the possibility to see the reactions that the interviewees have to some questions which may be useful in analysing the answers that they give. Finally the collection of quantitative data to back the qualitative findings are necessary to further deepen the understanding of the effect of VP on negotiation behaviour.

7. Conclusion

This thesis set out to answer three research questions with regard to variable pay.

The first research question that was asked was: “*How does variable pay affect negotiation behaviour?*”, to answer this question a qualitative analysis was conducted by reviewing literature of previous studies as well as the gathering of qualitative data through the use of interviews. Using the data from this study it cannot be conclusively said that VP has an effect on the negotiation behaviour of purchasers, although there is a very slight bias towards using distributive behaviour when receiving VP. This could be explained by VP, but there may also be other variables that can affect the choice of negotiation behaviour.

For the second research question, “*Do negotiators who do not receive variable pay have a preference toward integrative negotiation tactics?*”, there was no conclusive evidence that purchasers favoured integrative behaviour when they do not receive VP.

The third research question was: “*Does receiving VP have an effect on how negotiators prepare?*”, here too there was no conclusive evidence that VP has an impact on the preparation of negotiations. Purchasers choose their negotiation preparation methods based on the type of negotiation they enter irrespective of their salary structure.

In conclusion it can be said that VP is one of many variables that has an effect on both the choice of negotiation preparation and

the choice of negotiation behaviour, but it is important to realise it is not the only factor.

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9. Appendix

9.1 Appendix A

Interview Guide

"Do organisations offer variable pay and if they do, does it affect negotiation behaviour in a positive or negative way and how?"

Date:
Name:
Company:
Job Title:

1. General and Organisational points
 - a. Organisational Points
 - . Interview will be recorded with your permission
 - . Your name and firm will be used anonymously
 - . You will receive an executive summary of the findings if you like
 - b. Procedure
 - . Open questions to find out more about the sales/purchasing strategy you use
 - . I define negotiation behaviour as the way a person behaves/acts during a negotiation
2. Background Questions
 - a. Could you please describe the firm you work for?
 - . Products
 - . Size
 - . Number of suppliers/buyers
 - . Type of customer/supplier
 - . Type of industry
 - b. Could you please describe your educational/professional background?
 - . Current position
 - . Age, Gender and education
 - . Years in the Industry and in the Position and at the firm
 - . Negotiation experience
 - . How many clients are you responsible for?
 - . Do you always interact with the same people?
 - . What is your/their cultural background? (This may have an impact on negotiation behaviour)

3. Negotiations

When answering these questions please think about a recent/typical negotiation. Please also add experiences from negotiations which deviate from the typical example.

- a. Opinions
 - . What do you considered a successful negotiation outcome?

- b. Negotiation Preparation
 - . Do you prepare for a negotiation? (if yes how? How long? What do you do?)
 - . Do you prioritize working with existing suppliers over new ones? Please explain why
 - . Does the process for negotiation preparation differ between a new and existing customer?
 - . Standardised preparation or supplier specific preparation?
 - . Are preferences and priorities scored and measured (of the opponent)
 - . Are alternative offers prepared in case the preferred offer is not agreed on?
 - . What are some of the characteristics you look for in a potential supplier?
 - . What does the evaluation process of a potential supplier look like?
 - . What does your ideal supplier look like in theory?
- c. Negotiation
 - . Who is involved in the negotiation process and where do they take place?
 - . How do you start off negotiations?
 - . What content does the first interaction have?
 - . Which issues are negotiated?
 1. Pre-determined (agenda)?
 2. Number of issues?
 - . Did you know your counterpart? (if yes, how long did you know them? Do you consider that you could trust each other?
 - . Have you ever used bracketing? (Make a demand far greater than the desired outcome)
 - . What communication tools do you use in order to facilitate communication or the exchange of information?
- d. Negotiation Behaviour
 - . How do you conduct a negotiation with regard to the negotiation issue?
 1. Guideline by company?
 2. Influence through bargaining power?
 3. When are different issues negotiated? Why?
 4. Is the importance in some issues exaggerated? Why?
 5. Are issues treated alone or in packages? Why?
 6. Do issues pop up even though the negotiation seems to be finalised? How do you handle that?
 - . Does your negotiation behaviour evolve along the process? Does your opponent influence this?

- Which strategies/ actions do you use to negotiate successfully? (or consider vital to negotiate successfully)
- What behaviour do you dislike when used by your opponent and why?
- Which of the following tactics would you use? (how likely or unlikely?)

1. [2a1] Intentionally misrepresent factual information to your opponent when you know that he/she has already done this to you.
2. [2a2] Intentionally misrepresent factual information to your opponent in order to support your negotiating arguments or position.
3. [2b1] Gain information about an opponent's negotiating position and strategy by "asking around" in a network of your friends, associates, and contacts.
4. [2b2] Make an opening demand that is far greater than what one really hopes to settle for.
5. [2b3] Hide your real bottom line from your opponent.
6. [2b4] Convey a false impression that you are in absolutely no hurry to come to a negotiation agreement, thereby trying to put more time pressure on your opponent to concede quickly.
7. [2b5] Make an opening offer or demand so high (or low) that it seriously undermines your opponent's confidence in his/her own ability to negotiate a satisfactory settlement.
8. [2c1] Lead the other negotiator to believe that they can only get what they want by negotiating with you, when in fact they could go elsewhere and get what they want cheaper or faster.
9. [2c2] Promise that good things will happen to your opponent if he/she gives you what you want, even if you know that you can't (or won't) deliver those good things when the other's cooperation is obtained.
10. [2c3] Threaten to harm your opponent if he/she doesn't give you what you want, even if you know you will never follow through to carry out that threat.
11. [2d1] Talk directly to the people who your opponent reports to, or is accountable to, and try to encourage them to defect your side.
12. [2d2] Threaten to make your opponent look weak or foolish in front of a boss or others to whom he/she is accountable.
13. [2d3] Talk directly to the people who your opponent reports to, or is accountable to, and tell them things that will undermine their confidence in your opponent as negotiator.
14. [2e1] Gain information about an opponent's negotiating position by paying friends, associates, and contacts to get this information for you.
15. [2e2] Gain information about an opponent's negotiating position by cultivating his/her friendship through expensive gifts, entertaining, or "personal favours"

4. Agency theory problem

- Do you usually have any conflict of interests with suppliers?
- What are some of the usual conflicts of interests you've had to deal with over the years of negotiation?
- How do you overcome conflicts of interests?
- How does it affect both parties' negotiation behaviour?
- Do you share all information with the other party involved in the negotiation?

5. Variable Pay

Variable pay means bonuses or other financial incentives for a job well done (reaching a specific goal)

- a. Does your firm offer VP?
 - . If yes, can you explain how it works? (specific outcome of a negotiation?)
 - . What kind of VP? (Fixed rate, percentage, or something else?)
 1. How much do you receive?
 2. How much would VP have to increase to significantly change your negotiation behaviour?
 - . If no, do you think VP would change your negotiation behaviour and why?
 1. How much of a bonus would it take for you to change your negotiation tactics/behaviour? Is there a minimum threshold?
 - . What do you think of the effect of VP is on the behaviour of other parties involved in the negotiations?
 - . Do you think VP may have a negative effect on the negotiation process and why? How does VP negatively affect the negotiation process? And why?
 - . What are the disadvantages of using VP?
 6. Satisfaction
 - a. Are you usually satisfied with the outcome of a negotiation? (Why/why not?)
 - b. How would you describe the satisfaction with your negotiation "opponents" after a negotiation?
 - c. Do you feel that your opponent is equally satisfied with the outcome as you? (If not, kindly explain why)
 - d. Does the firm track satisfaction of suppliers? How important is it to you/the firm?
 7. Conclusion
 - a. What recommendations would you have when carrying out the kind of negotiation you just described?
 - b. Is there anything else you would like to add that I may have missed to ask?
 8. Acquisition
 - a. Is there anyone else you know who I can contact for an interview?
-

9.2 Appendix B

Firm	1	2	3	3	4	5	5
Interview 1	Interview 1	Interview 2	Interview 3	Interview 4	Interview 5	Interview 6	Interview 7
Firm	Automotive Industry	Automotive	Metals Industry	Metals Industry	Semiconductor	Cutting Tools / Metals Industry	Cutting Tools / Metals Industry
Size	15,500 employees	300,000 employees	14,000 employees	14,000 employees	12,000 employees	9000 employees	9000 employees
No. of suppliers	5000	-	-	-	-	-	-
Person	Global head of Purchasing	Head of purchasing Electronics Support	Head Supply chain Finance Reuse	Head Supply Chain network Finance SE	Component purchaser Water	Purchaser CNC machines	Purchaser Carbide Blanks
Years in the firm	12	10	12	10	5	3	10
Years in position	5	3	1	3	2	3	2
Negotiation experience	yes	yes	yes	yes	yes	yes	yes
No. of deals responsible	1700	200	150	30	150-300	10	5
Reg. Prep	Do you prepare? How long do you prepare for existing or new supplier preference	yes depends on the negotiation and size of contract existing, they already know your deal, and you know how they operate	yes depends on the negotiation, and size of contract existing, they already know your deal, and you know how they operate	yes depends, sometimes months sometimes days existing, it takes longer with new suppliers	yes depends on the size of the negotiation existing	yes depends but usually 6-7 hours per negotiation existing	yes depends, usually couple of hours existing
Standardized preparation	Preparation difference new and existing supplier	no, very deal is different	yes, New Jats, longer and more detail	yes, it takes longer with new suppliers	yes, takes longer with new suppliers	yes, but we don't usually get new suppliers	yes, but we have an existing supplier base
Opportunities preference scores	yes	yes/no	yes	yes	yes	yes	yes
Alternate offers in case of negotiation fail	depends on what kind of deal is being negotiated	depends on the size of negotiation	depends on negotiation	depends on the size of the negotiation	depends on the importance of the negotiation	no	no
Important characteristics in potential supplier	reliability, quality, price and good delivery times	quality of components, reliability	quality, delivery reliability and cost	quality, delivery reliability and cost	high quality	cost and quality	quality and delivery speed
What does your ideal supplier look like	low cost, high quality and low delivery time	someone who can deliver high quality reliably	high quality suppliers with low delivery times	high quality suppliers with low delivery times	high quality and low cost	low cost, high quality, quick service and maintenance	high quality, quick delivery and low cost
Reg. Behav.	Do you know your counterpart Pre-determined issues discussed?	usually yes yes	usually yes yes	usually yes yes	usually yes yes	yes yes	yes yes
Reg. Behav.	Guideline by firm	no	no	no	no	no	no
Reg. Behav.	Influence through bargaining power	yes	yes	yes	yes	yes	yes
Reg. Behav.	Importance of issues is exaggerated	yes	yes	yes	yes	yes	yes
Reg. Behav.	Misrepresentation factual information	no	no	no	no	no	no
Reg. Behav.	Get into an opponent through acting around	yes	no	yes	yes	yes	yes
Reg. Behav.	greater opening demanded than you convey	yes	yes	yes	yes	yes	yes
Reg. Behav.	convey false info on their constraints	yes	no	yes	no	yes	no
Reg. Behav.	Talk to opponent superior to undermine position	sometimes	no	yes	no	sometimes	no
Reg. Behav.	get into an opponent through paying for info	no	no	no	no	no	no
Reg. Behav.	Gaining info through cultivating friendship	no	no	no	yes	no	yes
Agency Probe	Usual conflicts of interest	no, can occur sometimes	no	no	no	no	not really
Agency Probe	How do you deal with conflicts of interest	refuse myself	don't negotiate in that case	don't negotiate then	I would not negotiate	I would ask someone else to negotiate	I would ask someone else to negotiate
Agency Probe	do you share all info with the opposing party	no	no	no	no	no	no
Agency Probe	Does the firm offer UP	yes	percentage	no	no	yes	percentage
Agency Probe	How much UP	-	55% of base	-	-	20% of base	20% of base
Agency Probe	How much UP would it take for you to change behavior	-	don't think I would change my behavior	-	-	I probably wouldn't change much in my behavior	I would not change my behavior for money
Agency Probe	Are you usually satisfied with the outcome	yes, Mostly	yes, Not always	usually yes	yes	usually	mostly
Agency Probe	Do you feel your opponent is equally satisfied	yes	mostly yes	usually yes	no	I think so, they would not come back otherwise probably	yes
Agency Probe	Does the firm text satisfaction	yes	no	no	no	no	yes