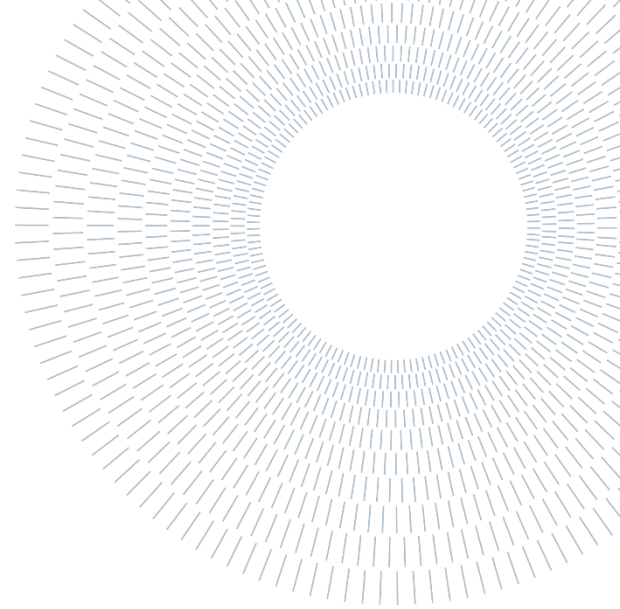




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EXECUTIVE SUMMARY OF THE THESIS

Buyer-supplier negotiation: ESG integration through a multiple case study analysis

TESI MAGISTRALE IN MANAGEMENT ENGINEERING – INGEGNERIA GESTIONALE

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1. Introduction

Over the last two decades, a paradigm shift in business strategy towards sustainability, exemplified by commitments as the UN Global Compact and alignment with Sustainable Development Goals (SDGs), has become widespread among major corporations. The pressure on companies to disclose progress on Environmental, Social, and Governance (ESG) metrics has heightened the importance of addressing climate response alongside broader sustainability initiatives (Tarmuji, I. et al., 2016). Amidst the ongoing discourse surrounding climate change and resource depletion, research on sustainability within business-to-business markets emerges as a critical and imperative domain. Certainly, a company's sustainability is intricately connected to the sustainability of its entire supply chain as the sustainability integrity of each component directly contributes to the overall sustainability profile of the organization (Zhan T. et al., 2021). Within this broader context, Purchasing and Supply Management (PSM) emerges as a

pivotal arena where strategic collaboration with suppliers becomes imperative for achieving competitive advantages and fostering a sustainable supply chain (Brandon-Jones et al., 2018). At the heart of the purchasing process, negotiations play a pivotal role in shaping the terms, conditions, and agreements between buyers and suppliers (Lewicki R.J. et al., 2016). Negotiations are both critical moments where parties seek to establish mutually beneficial terms and a strategic interface where companies can exert influence on their suppliers (Lewicki R.J. et al., 2016). However, despite the growing recognition of the importance of sustainability in PSM, and multiple studies addressing sustainability in other phases of the purchasing process (Causil M.O.O et al., 2023, Silva W.D.O et al., 2021), there remains a noticeable lack of investigation regarding the integration of sustainability issues into the negotiation process. This gap stands as the pivotal starting point and the primary objective of research for this study. Indeed, the negotiation table becomes a dynamic space where both parties can collaboratively explore innovative solutions to integrate sustainability into the supply chain, fostering a shared commitment to environmental and social responsibility.

The negotiation process, traditionally seen as a domain focused on economic considerations, now emerges as a crucial juncture for manifesting and fortifying enduring sustainability dedication.

By delving into the negotiation process, the authors aim to shed light on how companies can transcend the conventional boundaries of transactional negotiations and incorporate ESG parameters as a core aspect of their debates. This shift is not only a response to external pressures but a strategic move to shape the future relationship between involved parties. Hence, during the discussion, true commitment to sustainability can be revealed, influencing the trajectory of business relationships and setting the tone for a sustainable future.

2. Literature review

The literature review conducted for this study encompasses a comprehensive examination of academic and practitioner perspectives, shedding light on the incorporation of ESG parameters within the negotiation process. The available literature and scholarly discourse extensively examine the negotiation theme, mapping the entire process's three fundamental steps: pre-negotiation, negotiation, and post-negotiation, as identified by authors like Trosborg, A. (1989), Lewicki, R.J. et al. (2016), and Causil, M.O.O. (2023). The literature analysis also delves into sustainability, leading to the selection of the ESG framework as a reference for the authors. Indeed, it provides a robust foundation for examining the subject matter and ensures a thorough exploration of ESG factors offering a more comprehensive understanding of the complex interplay between sustainability and business operations, aligning with the contemporary discourse on responsible and ethical business practices (Gillan, S. et al., 2021). However, there are limited examples in the literature demonstrating how ESG factors are considered in various negotiation phases. Where sustainability is integrated, cases are distinctive. In some instances, a mediator, which is a person facilitating negotiations, is employed (Silva, W.D.O. et al., 2021). This approach ensures a balanced representation of both parties, working towards the achievement of objectives that encompass sustainability goals. Furthermore, others advocate for the use of a technological tool to mediate negotiation issues, exemplified by the FITradeoff model (Causil M.O.O. et al., 2023).

Despite this evidence highlighting the crucial role of the pre- and post-negotiation phases for sustainable supplier relationships, a notable gap exists in the central bargaining and discussion phase, where other issues as price and delivery time predominate. Furthermore, even in the phases where literature acknowledges the potential inclusion of sustainability, there is a lack of clear evidence, both theoretical and empirical, regarding the ESG parameters' prioritization. In particular, limitations include the exclusive application of the proposed negotiation model to a specific industry. Furthermore, these studies do not explore sustainability specifically in terms of ESG parameters.

Therefore, the authors have drawn inspiration from this for conducting a diverse research initiative, relying on an analysis of case studies across various industrial sectors.

The low availability of literature studying ESG parameters applications within a negotiation process, functioned as a trigger to define this research objective, aimed at bridging these gaps.

3. Objectives and research process

By delving into this unexplored terrain, the research aims to contribute valuable insights, offering a novel perspective that extends beyond conventional boundaries.

In light of the limited research on the incorporation of ESG parameters into negotiation issues and their prioritization across different phases, this study aspires to make a meaningful contribution to this field. Three interconnected areas of inquiry guide the research: identifying integration points of ESG parameters within the negotiation process, prioritizing ESG categories within the negotiation process, and identifying potential enablers for sustainability integration.

Therefore, the authors have formulated a singular and comprehensive Research Question (RQ): *"How can ESG parameters be considered in the phases of the negotiation process?"*.

The research process has followed a structured approach, starting with an exhaustive literature review to identify gaps and establish research objectives. Subsequently, a qualitative analysis has been conducted to validate the Preliminary Research Framework. Case studies have been selected as the most suitable methodology given

the innovativeness of the topic. The collected data have undergone meticulous scrutiny through a With-In analysis with inductive coding, aimed at identifying the most relevant variables and codes to populate the framework. This has then been succeeded by a Cross-Case analysis to compare the identified codes. Finally, leveraging the empirical data, the refined Final Research Framework based on practical insights has been formalized.

4. Research methodology

The literature review has analyzed contributions related to buyer-supplier negotiation and sustainability themes, particularly ESG, before intersecting them to shape the Preliminary Research Framework.

A dedicated Excel Database has been created for efficient information retrieval, organizing essential details for a comprehensive overview of the scholarly landscape.

The subsequent phase has involved case study analysis to enrich literature content with real-world business practices. This methodology allowed for a thorough examination of the specific phenomena within the authentic working environment. Hence, a sample of companies has been selected, focusing on B Corps and non-B Corps from diverse sectors. The selection of companies was also based on their industry sectors, ensuring a heterogeneous representation for a thorough exploration. Interviews have been conducted online, and meticulous analysis has involved literal transcription, With-In analysis, and Cross-Case analysis. Information has been organized and categorized using an Excel table, establishing connections between quotations and codes for a systematic and insightful analysis.

In the end, it was possible to construct the Final Framework, which encapsulates crucial variables and codes, providing invaluable insights into the field of study.

5. Preliminary Research Framework

The authors focused on the construction of the Preliminary Research Framework for investigating the inclusion of ESG factors in the negotiation process.

The "preliminary" designation indicates its role in guiding the research process, with the ultimate aim

of validation through case studies. The framework exhibits a coherent structure, with ESG factors, negotiation stages, and enabling factors (human and technological) delineated.

The environmental concerns (E), underscore the global imperative to achieve goals aimed at reducing environmental impacts on the planet.

Social dimension (S) expresses compliance with human basic needs, covering aspects such as health, human and labor rights, fair wages, decent working conditions, and community development. Governance (G) encompasses the implementation of mechanisms to ensure executives uphold stakeholders' rights and interests, while holding them accountable for responsible behavior in safeguarding, generating, and distributing wealth invested in the firm.

Then, it follows the examination of the negotiation process, which involves dissecting it into three phases: pre-negotiation, negotiation, and post-negotiation. Each phase offers a comprehensive understanding of how negotiations unfold. Furthermore, enablers are introduced as a significant variable, categorizing them into human-based and technology-based. Human-based enablers, such as mediators, play a crucial role in facilitating discussions on sustainability during negotiations. Technology-based enablers, like the FITradeoff platform, leverage algorithms to achieve equitable trade-offs, proving effective in scenarios where complete information may be lacking (Causil M.O.O. et al., 2023). The variables are all linked by the overarching research question underlying this study.

6. Empirical analysis

By deeply analysing each case study with a precise and thorough with-in analysis, the authors structured an effective coding tree describing the main variables involved, adopting an inductive approach. Inductive codes were formulated for each variable by analyzing relevant quotations from the interviewed people. A Cross-Case analysis allowed a comprehensive understanding and categorization of data. The codes were compared to derive research results, offering meaningful insights.

This procedure was followed for all segments of the Preliminary Research Framework, including ESG parameters, negotiation process, and enablers.

Starting with ESG parameters, both "Environmental Performance" and "Environmental Certification" have been identified as variables. Environmental performances include factors like energy consumption and waste management while environmental certifications, reflecting adherence to standards, signal sustainability commitment.

Regarding the social dimension, from the interviews, the variables "Social Performance" and "Social Certifications" emerged. Social Performance encompasses efforts to enhance stakeholders' well-being, including occupational safety, long-term supplier relationships, and specific social performances prioritized by companies.

Social Certifications emphasize the importance of regulations against discrimination for social sustainability. Legal frameworks promoting inclusivity and diversity reflect a commitment to fairness.

In the Governance dimension, the third-level variable "Policies Adoption" was associated. This key revelation emphasizes the importance of implementing governance policies, particularly in risk management and stakeholder rights. Interviews highlighted the strategic role of policy adoption in shaping governance practices and enhancing accountability. There is a significant emphasis on transparency, reflecting the universal recognition of its role in building trust and managing reputational risks in an era where openness is highly valued by markets and stakeholders and on anti-corruption policies in industries engaged in international transactions with extensive global supplier networks.

Then, moving to the negotiation process, all three phases have been deeply analyzed.

In the **pre-negotiation** phase, the sub-phases where sustainability is considered are "Information acquisition and analysis" and "Strategy definition". In the former, audits are exploited to collect information from suppliers before the negotiation to assess their performances. The audit can be carried out on-site or digitally on the type of industry considered and the type of supplier. Indeed, codes like "Strategic suppliers" and "All suppliers" are identified, reflecting the different levels of scrutiny applied based on strategic importance. Regarding the strategy definition in the pre-negotiation phase three cases have been identified: "Gatekeeping," "Non-restricting," and "Collaborating," outlining different approaches to

sustainability as an entry barrier. "Gatekeeping" indicates that a company views sustainability as a crucial requirement, acting as a strict entry barrier for potential suppliers. Conversely, the term "Non-restricting" suggests that sustainability is not seen as a barrier; thus, all suppliers, regardless of their adherence to sustainable practices, are welcome to engage in negotiations. "Collaborating" represents a middle ground, where the company adopts a more flexible approach, being open to negotiations with all suppliers, including those not fully compliant with sustainability standards.

Within the **negotiation phase**, the only sub-phase where sustainability is at least mentioned is the discussion. In this regard, case studies revealed two main approaches: the inclusion of ESG in the discussion with suppliers or the exclusion of ESG. Regarding the exclusion of ESG criteria from negotiation several contrasting perspectives emerged.

In the **post-negotiation** phase, companies incorporate sustainability into the monitoring process aimed at evaluating both contractual compliance and supplier performance. Audits can take place either on-site or digitally, being carried out either internally by the company or externally by third parties.

Codes like "Strategic Suppliers" and "Non-Strategic Suppliers" reflect the strategic importance of suppliers and the chosen audit approach. This detailed exploration contributes to understanding how companies manage supplier compliance post-negotiation, mitigating risks, and fostering sustainable practices.

Then the authors investigate the practical use of some enablers, such as technological tools to facilitate the integration of ESG parameters into negotiations but the companies interviewed did not provide substantive insights or clues on these enablers.

While these variables were recognized in the research framework, their limited contribution to the study's objectives acknowledges their marginal role. While these variables were recognized in the Preliminary Research Framework, their limited contribution to the study's objectives acknowledges their marginal role.

7. Results and discussion

After concluding the empirical analysis, the authors present their findings from interviews on

corporate negotiation processes and the integration of ESG parameters answering the RQ underlying this study. They highlight contingent variables crucial for discussing the results, such as the industry in which companies operate, B Corp certification, and the green identity of the companies.

In the **pre-negotiation phase** sustainability is integrated through supplier audits. B Corps, especially those with a green identity, prioritize sustainability across all suppliers, while non-B Corps may focus on strategic suppliers or those with state incentives.

In this phase, companies attribute significantly more importance to environmental parameters, leaving social and governance factors in the background. The meticulous scrutiny extends to key aspects such as CO2 emissions, energy consumption, the percentage of recycled materials, water usage, and waste reduction. This heightened focus emphasizes the critical need for companies to diligently monitor and assess the environmental impact of their suppliers.

The **negotiation phase** is characterized by the exclusion of sustainability discussions, with companies prioritizing price, volume, and quality. Sustainability is factored into pricing, reflecting a strategic decision to pay a premium for sustainable practices. Varying perspectives exist on whether sustainability should be discussed during negotiations, reflecting a broader discourse within the business community.

In the **post-negotiation phase**, companies maintain a focus on sustainability through rigorous audits, either on-site or digital. There is a shift from environmental parameters to a deeper focus on social and governance aspects, indicating a strategic shift in companies' priorities. Common parameters include CO2 emissions, transparency, anti-corruption policies, and supply chain visibility. Different industries emphasize specific aspects, like diversity and inclusion in the food industry. The chapter concludes with the presentation of the Final Framework, integrating ESG variables in the negotiation process stages.

8. Conclusions

The primary objective of this research was to fill a critical gap in the literature by understanding the incorporation and prioritization of ESG parameters in the negotiation process. Breaking down

negotiations into pre-negotiation, negotiation, and post-negotiation phases, the study aimed to create a definitive framework through literature review, and empirical analysis. Both contingent and non-contingent variables were considered to interpret the results and identify the peculiarities of the different industries.

The study revealed that sustainability prominently influences the pre-negotiation phase, especially during supplier audits, with variations based on companies with B Corp certification. In the negotiation phase, sustainability parameters are often excluded, focusing on immediate operational and financial aspects. In the post-negotiation phase, rigorous audits, varying by industry, emphasize social and governance parameters. The study also highlighted the diverse approaches of B Corps and non-B Corps towards sustainability, influenced by organizational values.

Theoretical Contributions The research addressed a significant gap in the literature concerning the integration of sustainability in negotiation phases. The authors' analysis results in a detailed list integrated into the Final Framework, outlining the thoroughly examined ESG parameters in social, environmental, and governance dimensions. This list serves as a valuable reference for industry peers and deepens the understanding of sector-specific considerations influencing sustainable practices in negotiations.

The authors' Final Framework encapsulates their theoretical contributions, offering detailed insights into the negotiation stages where ESG parameters are considered and prioritized. This advancement beyond current literature underscores the significance of these parameters.

Managerial Implications Beyond theoretical contributions, the study offers practical insights for managers. The Final Framework guides companies in integrating ESG parameters into negotiations. It suggests adopting an integrative negotiation approach, understanding industry-specific considerations, and tailoring strategies based on company characteristics. The findings emphasize the importance of aligning negotiation practices with sustainability strategies, fostering stakeholder trust, and enhancing ESG inclusion.

Limitations and Future Research The first study limitation is the narrow scope of the sample, both

in terms of the number and types of companies interviewed. The small sample size hinders the representation of diverse business behaviors, necessitating further investigation across a broader range of companies, adding more non-B Corp companies, for enhanced generalizability.

The study acknowledges an imbalance in the representation of B Corps versus non-B Corps, with a focus on amplifying the voices of B Corp-certified companies. This intentional bias may limit the generalizability of findings, and future research should strive for a more balanced and representative sample to ensure comprehensive insights into negotiation dynamics.

Moreover, the challenge of companies presenting an idealized image of their sustainability practices poses a limitation, highlighting the need for trust in the reliability of interviewees.

The study calls for a revisit to the Preliminary Research Framework, particularly the "Enablers" category, as variables associated with "Human-based" and "Technology-based" aspects remain obscured in the Final Framework due to insufficient information. Future research should explore potential enablers, such as the mediator and the FITradeoff platform, to understand their impacts on the negotiation process.

Despite respondents' limited awareness of tools for ESG integration, the study emphasizes the potential role of technologies like artificial intelligence and blockchain in aiding negotiations. The evolving use of algorithms and the possibility of artificial intelligence replacing the human component may reshape sustainability integration dynamics, making processes more efficient and precise. In conclusion, this study serves as a foundation for future research to delve deeper into sustainable negotiations, overcoming limitations, and contributing to a comprehensive understanding of effective ESG integration in buyer-supplier relationships.

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