Accounting, Organizations and Society 38 (2013) 93–107

Contents lists available at SciVerse ScienceDirect

Accounting, Organizations and Society

journal homepage: www.elsevier.com/locate/aos

The effect of outcome and process accountability on customer–supplier negotiations

Linda J. Chang, Mandy M. Cheng *, Ken T. Trotman

School of Accounting, The University of New South Wales, Sydney, NSW 2052, Australia

A B S T R A C T

Prior studies on customer–supplier negotiations (Drake & Haka, 2008; Van den Abbeele, Roodhooft, & Warlop, 2009) find that negotiators who have access to relevant activity-based cost information are not always able to use this information to improve joint outcomes. Our study extends this literature by examining how the type of accountability (process and outcome accountability) influences the extent to which negotiators can obtain lower joint costs. We hypothesize and test a model that predicts that the type of accountability affects negotiated outcomes through its effect on negotiators' fixed-pie bias revisions and the negotiation tactics they employ during customer-supplier negotiations. Results from an experiment show that negotiators held accountable for their negotiation processes are better able to reduce their fixed-pie biases and achieve lower joint costs compared to those who are held accountable for their negotiation outcomes. Using rich data based on taped negotiations, we demonstrate that the effect of accountability on joint costs is indirect through its effect on negotiators' choice of negotiation tactics and the extent to which negotiators can reduce their fixed-pie biases.

Introduction

Negotiations between customers and suppliers form a crucial part of collaborative supply chain relationships (Anderson & Dekker, 2005; Drake & Haka, 2008). Activity-based costing (ABC) techniques, such as customer profitability analysis, enable negotiators to identify activities that drive supply chain costs, and direct their attention away from price towards quantifying and managing the total cost of the customer–supplier relationship (Anderson & Dekker, 2009a, 2009b; Van den Abbeele, Roodhooft, & Warlop, 2009). Recent research has established that negotiators who share ABC information are more likely to reach agreements with higher joint outcomes (e.g., lower supply chain costs) than those who share volume-based cost information (Drake & Haka, 2008; Van den Abbeele et al., 2009). However, these studies also show that negotiators are reluctant to share ABC information, unless they are confronted with adverse conditions such as market pressures (Drake & Haka, 2008) or more powerful negotiation partners (Van den Abbeele et al., 2009). Providing ABC information to negotiators with bargaining power also potentially increases their tendency to use confrontational and competitive negotiation tactics, further reducing joint outcomes (Van den Abbeele et al., 2009).

The organizational and psychology literatures argue that a key factor that contributes to negotiators' unwillingness to work collaboratively is the 'fixed-pie bias'. The fixed-pie bias refers to negotiators' tendencies to believe that all negotiations are a fixed pie; that is, the attainment of one party's goals precludes the other party from achieving their goals (Bazerman, 2006; De Dreu, Koole, & Steinel, 2000; Pinkley, Griffith, & Northcraft, 1995; Thompson & Hastie, 1990). Such a belief results in negotiators holding incorrect assumptions about their negotiation partner's priorities and preferences. Fixed-pie bias is potentially detrimental because it causes negotiators to focus on competing with each other rather than working collaboratively,

* Corresponding author. Tel.: +61 2 9385 6343; fax: +61 2 9385 5925.
E-mail addresses: linda.chang@unsw.edu.au (L.J. Chang), m.cheng@unsw.edu.au (M.M. Cheng), k.trotman@unsw.edu.au (K.T. Trotman).

0361-3682/$ - see front matter © 2013 Elsevier Ltd. All rights reserved.
http://dx.doi.org/10.1016/j.aos.2012.12.002

thereby lowering the likelihood of negotiators identifying trade-off opportunities and reaching better joint outcomes (De Dreu et al., 2000). Despite the central role of the fixed-pie bias in understanding negotiation performance, the accounting literature has not investigated mechanisms that can help mitigate the negative effects of the fixed-pie bias when using accounting data.

In this study, we extend recent negotiation literature by investigating how one aspect of management control, namely type of accountability, affects negotiators' fixed-pie bias revisions[1] and performance when they are provided with ABC information during customer–supplier negotiations. The imposition of accountability underlies the principle of responsibility accounting, which calls for managers to be held responsible for their actions and performance outcomes (Bonner, 2007; Rowe, Birnberg, & Shields, 2008). Here, we compare two types of accountability, process versus outcome accountability, in an experiment where customer–supplier dyads engage in a single period negotiation over multiple issues, and have the opportunity to improve joint outcomes by taking advantage of symmetric trade-off opportunities. In our experimental setting, minimizing joint costs (i.e., total costs incurred by the customer and the supplier in each dyad) is considered desirable; both negotiating parties within a dyad have equal bargaining power and are faced with the same accountability pressure – either outcome or process accountability. Our results show that dyads which are held accountable for their negotiation processes achieve lower joint costs compared to dyads which are held accountable for their negotiation outcomes. In addition, using rich data from taped face-to-face negotiations, we demonstrate that process accountability is more effective than outcome accountability in reducing joint costs through two routes: a cognitive route where process accountability directly reduces negotiators' fixed-pie biases, and a behavioral route where process accountability encourages negotiators to use more integrative (value-creating) negotiation tactics, which in turn, reduces their fixed-pie biases and ultimately reduces joint costs. Demonstrating the benefits of process over outcome accountability is important because many performance evaluation systems implicitly emphasize outcome accountability, such as requiring managers to justify budget variances (e.g., Rowe et al., 2008), but do not include the requirement for managers to justify the processes they undertake to arrive at these outcomes.

'Accountability' refers to "the implicit or explicit expectation that one may be called to *justify* one's beliefs, feelings and actions to others" (Lerner & Tetlock, 1999, 255; emphasis added). Research on accountability contends that this justification requirement causes individuals to engage in more effortful processing of information before they make decisions or judgments (Bonner, 2007; Kennedy, 1993; Lerner & Tetlock, 1999; Peecher, 1996; Tan & Kao, 1999). Accountability literature identifies two distinct types of accountability: process accountability and outcome accountability (Lerner & Tetlock, 1999). Process accountability requires individuals to justify their decision making processes (e.g., to justify how a capital investment was selected or how negotiators reached an agreement), whereas outcome accountability requires individuals to justify their decision outcomes (e.g., to justify the success/failure of an investment or the final negotiation agreement).

In the management accounting literature, accountability is seen as a key issue in designing management control systems (e.g., Ahrens, 1996; Evans, Heiman-Hoffman, & Rau, 1994; Merchant & Otley, 2006; Roberts, 1991). However, the accountability literature relating to management control systems design typically does not distinguish between process accountability and outcome accountability. Instead, this literature examines how management control systems and accounting information are used as a conduit for managers to negotiate and discharge their accountabilities to their organizational constituents. While the related literature on responsibility accounting focuses on the evaluation of managers' performance based on their responsibilities (Cools & Slagmulder, 2009; Rowe et al., 2008), it typically does not directly examine the cognitive and behavioral effects of justification – a key feature of accountability. Two empirical studies that directly examine the effect of accountability on managerial judgments are Libby, Salterio, and Webb (2004) and Kadous and Sedor (2004). Libby et al. manipulated process accountability and showed that process accountability improved managerial judgments compared to no accountability. Kadous and Sedor found that the requirement to justify a decision increases the likelihood of consultants recommending the escalation of a project. Kadous and Sedor's operationalization of accountability includes both outcome and process elements.[2] Thus, the management accounting literature has not examined the relative merits of process versus outcome accountability in terms of managerial judgments.

In the psychology literature, a number of studies have found that process accountability improves judgments more than outcome accountability in static judgment tasks such as escalation of commitment (Simonson & Staw, 1992), calibration and probability judgments (Siegel-Jacobs & Yates, 1996), and consistency in interview judgments (Brtek & Motowidlo, 2002). However, no prior research has compared the effect of process and outcome accountability in a negotiation context.[3] Unlike static judgment tasks, negotiations are more dynamic and cognitively complex. During the negotiation process, negotiators need to make multiple judgments at various stages of the negotiation about their own interests (i.e., their priorities and preferences for the negotiation issues), their counterpart's interests, and find a way to integrate these interests to reach

[1] Consistent with prior literature (e.g., De Dreu et al., 2000), we define fixed-pie bias revisions as the difference between the negotiators' fixed-pie biases before and after the negotiation in each negotiation dyad.

[2] Kadous and Sedor (2004) operationalized accountability by telling participants that "... the Board will require you to justify your recommendations in a convincing manner ...". Thus participants' justification could involve an explanation of their decision outcomes or their decision processes or both.

[3] In fact, most studies investigating the impact of accountability on negotiations do not make a distinction between outcome accountability and process accountability. See De Dreu et al. (2000) and De Dreu, Beersma, Stroebe, and Euwenma (2006) for exceptions, both of which study the effect of process accountability versus no accountability on negotiations.