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Sharing Sensitive Information in Supply Relationships: The Flaws in One-way Open-book Negotiation and the Need for Transparency

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One of the key issues in managing inter-organisational relationships is the need for exchanging sensitive information and knowledge between customer and supplier. Attempts to conduct this process in practice appear to have taken customer dominance as their basis; the negotiation techniques that have developed as a result appear clumsy and flawed. This paper explores customers' requirement for their suppliers to 'open their books' and reveal sensitive and secret information. The subsequent tactical ploys and responses commonly employed are discussed and a potential solution to the problem is proposed – the concept of jointly managed transparency at the supply interface.

Keywords: Supply chain, Transparency, Open-book, Purchasing, Supply management, Manufacturing

Introduction – the Context for Transparency

The need for managing the sharing of sensitive information is one of the basic reasons for forming a firm. Grant (1996) explains this succinctly in terms of managing knowledge: ''The role of the firm is to allow individuals to specialise whilst establishing processes whereby individuals' knowledge may be integrated so that current competitive advantage is maintained and new advantage created. The key to producing sustainable competitive advantage is to achieve internal but not external replication''. This restriction on the opportunism of individuals (e.g., to sell secrets to others or exploit them for personal gain beyond the remit of the firm) via regulations and motivations couched in organizational mechanisms is a clearly effective way of consolidating the development of assets and supporting growth. In such a situation, commercial transparency is easily limited to the boundary of the firm – trade secrets are not traded.

Traditional ways of capturing information or knowledge locked in other firms include merger, acquisition and espionage. Where the other firm is a supplier of goods (e.g., raw materials and components) and services, however, the buying firm seeks to gain the *benefits* of such knowledge (i.e., rather than the knowledge itself) as a result of expertly accessing efficient supply markets. From this perspective, the need for the supplier firm to retain its knowledge, protecting it from competitors, is assumed to be eclipsed by the need for that firm's outputs to be competitive. In practice, however, the supplier recognises the risk contained in such one-way revelation and reveals just enough of their knowledge to stoke the market while privately retaining their 'crown jewels.' In this way, it is assumed that the market balances the needs of customers to ensure they are not incurring excess costs, the stability of competent suppliers, necessary for development and survival, and the liquidity of the commodity being traded.

"... trade secrets are not traded"

As the need for concentration on specific competences is made more intense by economic forces, such as pressure on prices and costs from fierce international competition and increased rates of technical change, so the realization dawns that managers in an organization need to know more about what takes place in other firms – especially their suppliers – without having to resort to acquisition. Accordingly, trusting the market to deal with the consequences, customers increase their inquisitiveness, developing techniques and postures designed to elicit sensitive – or even secret – information from their suppliers.

Thus, the idea of transparency across firm boundaries arises. When the focus is enlarged to encompass the network within which the organization operates, the degree of complexity may be assumed to increase although the principle remains the same. As Möller and Halinen note, 'knowledge generation about networks is not unproblematic, as networks are highly non-transparent' (1999:417). Hall and Adriani (2002) have applied Grant's description of the management of the firm to that of a notional supply network manager, almost, it seems, to illustrate the futility of such a ''control'' approach: ''The role of the network manager is to allow firms to specialise whilst establishing processes whereby firms' knowledge may be integrated so that current competitive advantage is maintained and new advantage created. The key to producing sustainable competitive advantage is to achieve internal but not external replication''.

In the context of this complexity, purchasing and supply managers have developed a technique which is actually far from transparent: that of so-called '*open-book negotiation*'.

Our research has focused on what actually happens in this approach. We believe that the conditions in which the technique is applied result in outcomes that are neither desired nor foreseen. Conceptually, we suggest, one-way open-book negotiation is seriously flawed; in practice, we have observed, it does not lead to transparency and the transfer of knowledge that is intended.

In this paper we present conclusions based upon our initial field research, in order to propose a concept of transparency within supply relationships. We do not seek here to describe the implementation of this concept but rather to establish its novelty, its fundamental difference from established practice (one-way open-book negotiation) and its fit with some other management techniques. First, we discuss the connotations associated with the term 'transparency' and its modern origins, in order to set a basis for considering our definition. We then explain our research method – action research – and justify its selection. This is followed by an account of what we have observed about one-way open-book negotiation in practice from our research. To test for its novelty and distinction we then compare the concept of transparency with the principles of other established practices, before we put forward our initial proposal for a new concept upon which we suggest practice might be based.

Research Context and Limits

The extent to which any conclusions may be generalised is, of course, limited to the scope of the supporting research. We chose four medium to high technology manufacturing companies for our field work since an initial review of their supply relationships indicated the presence of one-way open-book negotiation and the need for the exchange of sensitive information. We were not surprised to find that within any dyad (customer and supplier) within this grouping many different styles of engagement, including the simultaneous presence of collaborative and adversarial stances, were evident; accordingly we do not seek to link one-way open-book negotiation or transparency to any particular 'type' of relationship. We propose transparency as a means of gaining opportunities and economies from existing co-operation, therefore we are not addressing here the divide between adversarial or co-operative relationships Dowlatshahi, (1999). Core to the assumption