

Research note

Squaring online reverse auctions with the Caux Round Table *Principles for Business*

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Keywords

Purchasing, Internet, Shareholders, Stakeholders, Ethics

Abstract

Examines if online reverse auctions are consistent with the Caux Round Table *Principles for Business*. Identifies numerous contradictions that contribute to the perpetuation of divisive business practices. Concludes that buyer behaviors must evolve from focusing on short-term tactics designed to reduce purchase price and instead pursue collaborative cost reduction practices with key suppliers.

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Introduction

Online reverse auctions have recently emerged as a popular method among *Fortune* 1000 businesses for reducing the price of purchased goods and services (Emiliani, 2000; Richards, 2000; Tully, 2000; Sheridan, 2001). This new purchasing tool creates a forum in which many suppliers compete against one another in real time dynamic open bidding versus the traditional static three-quote closed bidding process. The typical result is a substantial reduction in prices and the time it takes to negotiate prices.

Online reverse auctions appear to deliver fast, measurable savings, and thus have great appeal to senior managers interested in reducing costs, increasing price competitiveness, and delivering greater shareholder value. However, this tool has numerous practical limitations that can result in reduced savings (Emiliani and Stec, 2002; GE, 2001a) and other undesirable consequences (Emiliani, 2000; Emiliani and Stec, 2001).

This paper critically examines the online reverse auction tool to determine if it is consistent with the Caux Round Table *Principles for Business* (Caux, 2001). The analysis is limited to the specific case where online reverse auctions are used by large, publicly owned businesses for buyer-designed machined or fabricated components. In other words, the bidders serve their customers as make-to-print sources of supply for high value-added components.

The Caux Round Table *Principles for Business* is reprinted in its entirety. Commentary is provided in response to specific items that are found to be incongruent with the generative business practices advocated by the *Principles for Business*. These judgments are based upon first-hand experience in managing nearly a dozen online reverse auction events for a large North American durable goods manufacturer, as well as direct responsibility for the actual implementation of online reverse auction results to secure the identified savings. The comments are thus rooted in practical experience; they are not presented as conceptual or abstract limitations that might result from the use of online reverse auctions. The deficiencies identified are quite real.

This descriptive analysis is important because it identifies buyer behaviors that



perpetuate decadent business practices known to divide buyer and sellers (Emiliani, 2001; Emiliani, 2002), resulting in waste (Ohno, 1988; Womack and Jones, 1996; Emiliani and Stec, 2002). A summary of the key issues for online reverse auctions related to the *Principles for Business* is presented in Table I. Prescriptive solutions to dysfunctional purchasing practices, inclusive of online reverse auctions, have been previously identified (Womack *et al.*, 1990; Nishiguchi, 1994; Bounds, 1996; Bounds *et al.*, 1996; Cooper and Slagmulder, 1999; Fujimoto, 1999; Dyer and Nobeoka, 2000; Johnson and Bröms, 2000; Emiliani, 2002; Emiliani and Stec, 2001, 2002).

Caux Principles for Business

Introduction

The Caux Round Table believes that the world business community should play an important role in improving economic and social conditions. As a statement of aspirations, this document aims to express a world standard against which business behavior can be measured. We seek to begin a process that identifies shared values, reconciles differing values, and thereby develops a shared perspective on business behavior acceptable to and honored by all.

These principles are rooted in two basic ethical ideals: *kyosei* and human dignity. The Japanese concept of *kyosei* means living and working together for the common good enabling cooperation and mutual prosperity to coexist with healthy and fair competition. “Human dignity” refers to the sacredness or value of each person as an end, not simply as a mean to the fulfillment of others’ purposes or even majority prescription.

The General Principles in section 2 seek to clarify the spirit of *kyosei* and “human dignity,” while the specific Stakeholder Principles in section 3 are concerned with their practical application.

In its language and form, the document owes a substantial debt to The Minnesota Principles, a statement of business behavior developed by the Minnesota Center for Corporate Responsibility. The Center hosted and chaired the drafting committee, which included Japanese, European, and US representatives.

Business behavior can affect relationships among nations and the prosperity and

well-being of us all. Business is often the first contact between nations and, by the way in which it causes social and economic changes, has a significant impact on the level of fear or confidence felt by people worldwide.

Members of the Caux Round Table place their first emphasis on putting one’s own house in order, and on seeking to establish what is right rather than who is right.

Section 1. Preamble

The mobility of employment, capital, products and technology is making business increasingly global in its transactions and its effects.

Law and market forces are necessary but insufficient guides for conduct.

Responsibility for the policies and actions of business and respect for the dignity and interests of its stakeholders are fundamental.

Shared values, including a commitment to shared prosperity, are as important for a global community as for communities of smaller scale.

For these reasons, and because business can be a powerful agent of positive social change, we offer the following principles as a foundation for dialogue and action by business leaders in search of business responsibility. In so doing, we affirm the necessity for moral values in business decision making. Without them, stable business relationships and a sustainable world community are impossible.

Comment 1. The use of online reverse auctions denies the existence of any stakeholder other than the buyer and its shareholders (Emiliani, 2002). The buyer’s overarching objective is simply to reduce the price it pays for purchased materials (Emiliani, 2000).

Comment 2. The values possessed by buyers and sellers are typically not shared (Kim *et al.*, 1999; Tracey and Tan, 2001; Emiliani, 2002), though there are notable exceptions in companies that correctly practice lean production (Womack *et al.*, 1990; Bounds, 1996; Bounds *et al.*, 1996; Nishiguchi and Beaudet, 1998; Fujimoto, 1999). In general, buyers want the lowest price while sellers expect to build long-term relationships and believe that quality and delivery are more important. Most buyers are not interested in sharing prosperity with sellers (Nishiguchi, 1994; Emiliani, 2002). Instead, corporate boards mandate that prosperity be distributed to shareholders (Emiliani, 2001).

Section 2. General principles

Principle 1. The responsibilities of businesses: beyond shareholders toward stakeholders

The value of a business to society is the wealth and employment it creates and the marketable

Table I Key issues for online reverse auctions

CRT Principles for Business	Key issues
Section 1: preamble	<p>Values possessed by buyers and sellers are not always shared; buyers seek the lowest price while sellers expect to build long-term relationships</p> <p>Many buyers use online reverse auctions to increase earnings per share in an effort to maximize shareholder value</p>
Section 2: general principles	<p>Principle 1. The responsibilities of business: <i>Beyond Shareholders Toward Stakeholders</i> Most senior managers of large companies recognize only shareholders and (perhaps) customers as key stakeholders The spirit of honesty and fairness are not achieved in actual practice</p> <p>Principle 2. The economic and social impact of business: <i>Toward Innovation, Justice, and World Community</i> Buyers are generally not interested in contributing to the social advancement of low wage countries. They usually just want to take advantage of lower labor costs</p> <p>Principle 3. Business behavior: <i>Beyond the Letter of Law Toward a Spirit of Trust</i> Managerial beliefs, behaviors, and resulting business practices are frequently inconsistent with espoused desire for “partnerships” with suppliers The use of online reverse auctions indicates that buyers do not trust the pricing given to them by suppliers. Managers must determine the root cause of distrust</p> <p>Principle 4. Respect for rules Buyers use online reverse auctions to optimize their own business position at the expense of its suppliers Online reverse auction rules may not be strictly adhered to</p> <p>Principle 5. Support for multilateral trade Online reverse auctions support this principle by matching buyers and sellers across continents, notwithstanding the issues identified</p> <p>Principle 6. Respect for the environment This principle is not yet part of the expectations associated with online reverse auctions</p> <p>Principle 7. Avoidance of illicit operations This principle is relevant to any business activity, including online reverse auctions</p>
Section 3: stakeholder principles	<p>Customers The buyer’s key responsibilities to its customers may falter as a result of online reverse auctions Customer health, safety, or environmental concerns are not considerations in the online reverse auction process</p> <p>Employees Online reverse auctions will challenge employee dignity and ethics, due to a split in objectives: senior managers focus on stock price while employees focus on customer satisfaction</p> <p>Owners/investors Online reverse auctions do not address the root cause of systemic cost problems, which should be of prime interest to owners/investors Long-term use of online reverse auctions may also decrease owners/investors’ assets through a slow but steady decline in competitiveness and market share</p> <p>Suppliers The use of online reverse auctions demonstrates a lack of mutual respect Auction rules and contract terms and conditions are designed to heavily favor the buyer’s interests Online reverse auctions are not free of coercion: there is explicit and implicit coercion, through both human and electronic means Online reverse auctions do not foster long-term stability in supplier relationships nor do they promote integration of supplier personnel into the buyer’s planning process for new products Seeking suppliers whose employment practices respect human dignity is not yet part of the expectations associated with online reverse auctions</p> <p>Competitors Online reverse auctions focus companies inwardly on efforts to remedy chronic cost problems and therefore less on the competitive environment that surrounds them Online reverse auctions can be viewed as a demonstration of mutual disrespect among competitors</p> <p>Communities Concern for communities is not yet part of the expectations associated with online reverse auctions</p>

products and services it provides to consumers at a reasonable price commensurate with quality. To create such value, a business must maintain its own economic health and viability, but survival is not a sufficient goal.

Businesses have a role to play in improving the lives of all their customers, employees, and shareholders by sharing with them the wealth they have created. Suppliers and competitors as well should expect businesses to honor their obligations in a spirit of honesty and fairness. As responsible citizens of the local, national, regional and global communities in which they operate, businesses share a part in shaping the future of those communities.

Comment 3. Businesses are led by managers whose belief system is based on either companies existing to maximize shareholder value (Rappaport, 1998), or businesses existing to fulfill socio-economic objectives (Matsushita, 1984; Basu, 1999). These beliefs have existed as philosophical arguments and are thus not subject to a single deterministic solution. However, recently it has been proven that companies do not intrinsically exist to maximize shareholder value (Emiliani, 2001). The divisive tactics commonly used by management to increase shareholder value (Baker, 2001; Ball, 2001; Fraser, 2001; Petersen, 2001) are thus fatally flawed from the perspective of ethical business practices (Emiliani, 2001).

Comment 4. The online reverse auction bidding process is designed with the intent of ensuring fairness between the buyer and sellers. However, fairness is often not achieved in actual practice, particularly with regard to the implementation of online auction results (Emiliani and Stec, 2001, 2002). In addition, the buyer is under no obligation to accept the results of online reverse auctions. Thus, the buyer can, at any time, ignore the “spirit of honesty and fairness” for whatever reason. Further, some buyers may pursue parallel paths and use online reverse auctions to achieve short-term savings with the intent to source work to lower cost producers in the future.

Principle 2. The economic and social impact of business: toward innovation, justice and world community

Businesses established in foreign countries to develop, produce or sell should also contribute to the social advancement of those countries by creating productive employment and helping to raise the purchasing power of their citizens. Businesses also should contribute to human rights, education, welfare, and vitalization of the countries in which they operate.

Businesses should contribute to economic and social development not only in the countries in which they operate, but also in the world community at large, through effective and prudent use of resources, free and fair competition, and emphasis upon innovation in technology, production methods, marketing and communications.

Comment 5. The primary, if not sole reason for using online reverse auctions is to reduce the price of purchased materials in order to reduce the cost of goods sold (Emiliani, 2000). This can result in sourcing work to low wage countries. The buyer’s interest in social and economic development in foreign countries is weak, if even a consideration. If fact, some buyers would prefer that social and economic conditions remain poor in order to prolong the benefits of low-cost labor.

Principle 3. Business behavior: beyond the letter of law toward a spirit of trust

While accepting the legitimacy of trade secrets, businesses should recognize that sincerity, candor, truthfulness, the keeping of promises, and transparency contribute not only to their own credibility and stability but also to the smoothness and efficiency of business transactions, particularly on the international level.

Comment 6. Buyers frequently use the word “partnership” to describe the type of relationship that they seek. However, their true intent, as demonstrated by managerial beliefs and behaviors, as well as actual business practices, is often inconsistent with this goal (Emiliani, 2002). As a result, sellers will continue to distrust buyers and withhold key information, such as price breakdowns, in order to maintain leverage. Sellers may also invoke overt or covert retaliatory measures to achieve financial restitution when the opportunity presents itself (Emiliani and Stec, 2001).

Principle 4. Respect for rules

To avoid trade frictions and to promote freer trade, equal conditions for competition, and fair and equitable treatment for all participants, businesses should respect international and domestic rules. In addition, they should recognize that some behavior, although legal, may still have adverse consequences.

Comment 7. Rules are difficult to respect when buyers seek to optimize their own business position at the expense of their suppliers. As a result, online reverse auctions can result in many types of adverse consequences and unintended outcomes (Emiliani, 2000, 2001, 2002; Emiliani and Stec, 2002). Principal shortcomings include terms and conditions that heavily favor the

buyer's interests, reducing the long-term competitiveness of buyers and sellers, perpetuating short-term transactional relationships, and the ineffective use of resources (Emiliani and Stec, 2001, 2002).

Principle 5. Support for multilateral trade

Businesses should support the multilateral trade systems of the GATT/World Trade Organization and similar international agreements. They should cooperate in efforts to promote the progressive and judicious liberalization of trade and to relax those domestic measures that unreasonably hinder global commerce, while giving due respect to national policy objectives.

Comment 8. Online reverse auctions support this principle by matching buyers and sellers across continents, notwithstanding the issues identified in all previous and following comments.

Principle 6. Respect for the environment

A business should protect and, where possible, improve the environment, promote sustainable development, and prevent the wasteful use of natural resources.

Comment 9. This principle is not yet part of the expectations associated with online reverse auctions. The authors are unaware of any company whose procurement policy links the use of online reverse auctions to respect for the environment. Terms and conditions reviewed by the authors do not require overseas sellers to adhere to the same environmental standards that apply to domestic sources, let alone practice sustainable development. Suppliers residing in countries with few or ineffective environmental laws will likely enjoy improved price competitiveness and thus may be attractive sources of supply, all other capabilities being equal.

Principle 7. Avoidance of illicit operations

A business should not participate in or condone bribery, money laundering, or other corrupt practices: indeed, it should seek cooperation with others to eliminate them. It should not trade in arms or other materials used for terrorist activities, drug traffic or other organized crime.

Comment 10. This principle is relevant to any business activity, including online reverse auctions. Buyers or sellers may use illicit practices to influence post-bid award decisions. Most large companies have a code of ethics to guide buyer and seller behaviors.

Section 3. Stakeholder principles

Customers

We believe in treating all customers with dignity, irrespective of whether they purchase

our products and services directly from us or otherwise acquire them in the market. We therefore have a responsibility to:

- provide our customers with the highest quality products and services consistent with their requirements;
- treat our customers fairly in all aspects of our business transactions, including a high level of service and remedies for their dissatisfaction;
- make every effort to ensure that the health and safety of our customers, as well as the quality of their environment, will be sustained or enhanced by our products and services;
- assure respect for human dignity in products offered, marketing, and advertising; and respect the integrity of the culture of our customers.

Comment 11. There is a high probability that the buyer's key responsibilities to its customers may falter as a result of online reverse auctions. For example, the quest for low prices may come at the expense of quality, delivery, or service. Remedies for customer dissatisfaction may be complicated by short-term difficulties in re-establishing capable sources of supply and associated costs. Customer health, safety, or environmental concerns are not yet mainstream considerations in the online reverse auction process.

Employees

We believe in the dignity of every employee and in taking employee interests seriously. We therefore have a responsibility to:

- provide jobs and compensation that improve workers' living conditions;
- provide working conditions that respect each employee's health and dignity;
- be honest in communications with employees and open in sharing information, limited only by legal and competitive constraints;
- listen to and, where possible, act on employee suggestions, ideas, requests and complaints;
- engage in good faith negotiations when conflict arises;
- avoid discriminatory practices and guarantee equal treatment and opportunity in areas such as gender, age, race, and religion;
- promote in the business itself the employment of differently abled people in places of work where they can be genuinely useful;

- protect employees from avoidable injury and illness in the workplace;
- encourage and assist employees in developing relevant and transferable skills and knowledge; and
- be sensitive to the serious unemployment problems frequently associated with business decisions, and work with governments, employee groups, other agencies and each other in addressing these dislocations.

Comment 12. Employee dignity will be challenged by companies that use online reverse auctions. First, the very use of online reverse auctions is an affront to the knowledge and capabilities of purchasing professionals. It diminishes, if not trivializes, the importance of the purchasing function and the knowledge possessed by its practitioners. Favorable auction results often inspire executives to comment on the poor job that purchasing professionals have historically done to obtain the lowest price. Management incorrectly concludes that purchasing professionals are at fault and ignores the flawed business system within which they are forced to operate (Womack *et al.*, 1990; Emiliani, 2002).

Comment 13. Importantly, employee ethics will also be challenged. By using online reverse auctions, management creates an intense split in business objectives: i.e. senior management focuses on stock price (Emiliani, 2001; GE, 2001b), while employees focus on customer satisfaction (i.e. quality, delivery, and service). But don't rush to blame the employees. Management must first perform root cause analysis to determine the factor(s) that cause employees to behave this way. Inevitably, the root cause will lie in the direction of management's focus on local optimization (Emiliani and Stec, 2002).

Comment 14. Given the resourcefulness of humans, it is likely that they will find many creative ways to undermine online reverse auctions and quickly render them another "flavor of the month". For example, engineers may design new products that are immune to online reverse auctions by selecting suppliers with highly specialized capabilities, equipment, or proprietary processes. Remarkably, the unintended consequence of such actions will be higher costs! Purchasing people may establish material requirements far into the future to complicate resourcing or hedge against possible quality or delivery problems by maintaining a second source of supply, thus partially defeating the purpose of online reverse auctions. Quality personnel may slow down or deny qualification of new suppliers, withhold quality history (i.e. lessons learned) from new sources, or provide inadequate instruction on compliance.

Owners/investors

We believe in honoring the trust our investors place in us. We therefore have a responsibility to:

- apply professional and diligent management in order to secure a fair and competitive return on our owners' investment;
- disclose relevant information to owners/investors subject to legal requirements and competitive constraints;
- conserve, protect, and increase the owners/investors' assets; and
- respect owners/investors' requests, suggestions, complaints, and formal resolutions.

Comment 15. Online reverse auctions are a technological solution to the fundamental problem of continuous cost reduction faced by businesses operating in competitive markets. However, it does not address the root cause of systemic cost problems, which should be of prime interest to owners/investors. By not understanding the root cause, it is reasonable to conclude that in using online reverse auctions, management has failed to honor the trust that investors have placed in them. The outcome will be unpredictable cyclic financial performance: going from boom to bust every three to five years (Johnson and Bröms, 2000). Thus, investors must pressure management to determine the root cause of why it needs to use online reverse auctions and then demand corrective actions that result in the elimination of systemic cost problems (Emiliani and Stec, 2002).

Comment 16. Long-term use of online reverse auctions may also decrease owners/investor's assets through a slow but steady decline in competitiveness and market share, as customers become less tolerant of the problems they experience caused by management's willingness to make trade-offs in price, delivery, quality, and service. Since online reverse auctions do not address the root cause of poor cost performance, their use will retard the company's ability to develop capabilities that will be necessary to compete effectively in the future (Emiliani and Stec, 2002). In particular, it relieves key functions of important responsibilities relative to cost reduction. For example, 80-90 percent of the cost of a product is in its design (Cooper and Slagmulder, 1999). Why should engineers worry about product cost if purchasing will do the job for them?

Suppliers

Our relationship with suppliers and subcontractors must be based on mutual respect. We therefore have a responsibility to:

- seek fairness and truthfulness in all our activities, including pricing, licensing, and rights to sell;

- ensure that our business activities are free from coercion and unnecessary litigation;
- foster long-term stability in the supplier relationship in return for value, quality, competitiveness and reliability;
- share information with suppliers and integrate them into our planning processes;
- pay suppliers on time and in accordance with agreed terms of trade; and
- seek, encourage and prefer suppliers and subcontractors whose employment practices respect human dignity.

Comment 17. The use of online reverse auctions demonstrates a lack of mutual respect. Specifically, the company discounts the value of its current suppliers and their capabilities, particularly with regard to price. The buyer, in essence, thinks that it is being overcharged by its current supplier(s). Also, the rules established for online reverse auctions, as well as terms and conditions, are designed to heavily favor the buyer's interests (Emiliani and Stec, 2001).

Comment 18. The buyer's responsibility to seek fairness and truthfulness are compromised by the belief that they are being overcharged. Thus, buyers who believe that suppliers are not fair or truthful will typically feel no compulsion to themselves be fair or truthful. Root cause analysis will point to the buyers' own history of using divisive business practices as the source of distrust (Emiliani, 2002).

Comment 19. Online reverse auctions are not free of coercion. In fact, explicit and implicit coercion, both human and electronic, are integral components of the process. Both the buyer and the provider of online reverse auction services coerce suppliers, particularly incumbent suppliers, to participate in the auction or risk losing the business up for bid. Real-time open dynamic bidding, as documented in the bid record graph (Emiliani, 2000), constitutes electronic coercion in that it compels suppliers to bid. In addition, the software used to control bidding may require suppliers to input lower bids in fixed increments of 2-4 percent, thus forcing conformance. The online reverse auction process greatly magnifies the buyer's clout and thus perpetuates traditional power-based bargaining relationships.

Comment 20. Online reverse auctions do not foster long-term stability in supplier relationships. Rather, their intent is to perpetuate short-term relationships, which supports most buyers' long-standing practice of switching sources when convenient in order to obtain lower unit prices.

Comment 21. Online reverse auctions do not result in the integration of supplier personnel into the buyer's planning process, particularly for new products. Since the bulk of parts auctioned have already been designed, suppliers are unable to materially influence part cost. In general,

buyers continue to view suppliers as instruments instead of valuable resources, thus perpetuating transactional purchasing practices which block the flow of valuable information (Nishiguchi, 1994).

Comment 22. Most buyers seek to pay suppliers on time and in accordance with the agreed-upon terms of trade. However, online reverse auctions present buyers with the opportunity to amend terms and conditions. It is common for a buyer to seek to extend payment terms from 30 days to 45 or 60 days, in an attempt to improve its own cash flow (Emiliani and Stec, 2001). Thus, the buyers' desire for improved financial performance will come at the suppliers' expense. See comments 16 and 19.

Comment 23. Seeking suppliers whose employment practices respect human dignity is not yet part of the expectations associated with online reverse auctions.

Competitors

We believe that fair economic competition is one of the basic requirements for increasing the wealth of nations and ultimately for making possible the just distribution of goods and services. We therefore have a responsibility to:

- foster open markets for trade and investment;
- promote competitive behavior that is socially and environmentally beneficial and demonstrates mutual respect among competitors;
- refrain from either seeking or participating in questionable payments or favors to secure competitive advantages;
- respect both tangible and intellectual property rights; and
- refuse to acquire commercial information by dishonest or unethical means, such as industrial espionage.

Comment 24. Online reverse auctions focus companies inwardly on efforts to remedy chronic cost problems and therefore less on the competitive environment that surrounds them. Thus, companies that use online reverse auctions may lose sight of their customer's interests and miss important opportunities to better serve them, such as new products or services.

Comment 25. Socially beneficial competitive behavior implies the creation of jobs, increasing the standard of living, mutual prosperity, etc. (Matsushita, 1984). Online reverse auctions can have the opposite outcome if work is sourced from domestic to overseas suppliers. In addition, there is no guarantee that buyers will remain committed to new foreign sources, thus making socially beneficial competitive behavior an unrealistic goal.

Comment 26. Online reverse auctions can be viewed as a demonstration of mutual disrespect among competitors if the outcomes are price wars, reduced competitiveness (see comments 15 and 16), customer dissatisfaction, and erosion of prosperity in a given industry (Matsushita, 1984).

Communities

We believe that as global corporate citizens we can contribute to such forces of reform and human rights as are at work in the communities in which we operate. We therefore have a responsibility in those communities to:

- respect human rights and democratic institutions, and promote them wherever practicable;
- recognize government's legitimate obligation to the society at large and support public policies and practices that promote human development through harmonious relations between business and other segments of society;
- collaborate with those forces in the community dedicated to raising standards of health, education, workplace safety and economic well-being;
- promote and stimulate sustainable development and play a leading role in preserving and enhancing the physical environment and conserving the earth's resources;
- support peace, security, diversity and social integration;
- respect the integrity of local cultures; and
- be a good corporate citizen through charitable donations, educational and cultural contributions, and employee participation in community and civic affairs.

Comment 27. Concern for communities is not yet part of the expectations associated with online reverse auctions.

Summary

The analysis of online reverse auctions in relationship to the Caux Round Table *Principles for Business* reveals numerous inconsistencies and adverse outcomes. These results have important implications for both economic theory and everyday business practices (Emiliani, 2001; Emiliani, 2002; Sigmund *et al.*, 2002).

While the results contained in this paper clearly point to opportunities for improving

online reverse auctions, the fact remains that their fundamental purpose is to leverage buying power and perpetuate power-based bargaining relationships (Womack *et al.*, 1990; Nishiguchi, 1994; Emiliani, 2000). Sellers will continue to protect their own interests, thus preserving the traditional pattern of undesirable behavior between both parties.

Our findings illustrate that businesses using online reverse auctions for buyer-designed industrial components can never be in compliance with the *Principles for Business*. The reason is simple: online reverse auctions lead to a breakdown of cooperation between the buyer and sellers, as the buyer seeks to satisfy its own selfish desires (Emiliani, 2001, 2002; Sigmund *et al.*, 2002). Not surprisingly, sellers will retaliate when the opportunity arises. Further, the *Principles for Business* is based in part on the spirit of cooperation: the Japanese concept of *kyosei*. Online reverse auctions are simply a new and more effective means of operationalizing a zero-sum purchasing game, where the gains of the buyer are derived from the losses of the seller. While they may improve the short-term competitiveness of buyers and sellers, they do not contribute in any meaningful way to long-term competitiveness because they do not result in capability building (Fujimoto, 1999) or provide a rational framework for analyzing costs, establishing prices, or determining profits (Womack *et al.*, 1990).

The simple reality that most buyers choose to ignore is that effective cost reduction can only be achieved if they forge close links with their key suppliers and engage in collaborative cost reduction (Womack *et al.*, 1990; Bounds, 1996; Bounds *et al.*, 1996; Cooper and Slagmulder, 1999). This will require a much higher level of commitment and discipline than that typically exhibited by today's managers.

Instead of resorting to online reverse auctions, buyers are advised to determine the root cause of systemic cost problems (Emiliani and Stec, 2002), align their purchasing policies and practices with the Caux Round Table *Principles for Business*, focus on customer needs, and develop innovative products and services to drive sales growth.

This paper points to several avenues for future research. For example, what is the impact of online reverse auctions on

buyer-seller relationships? How does the breakdown of cooperation between buyer and sellers affect future interactions? Will they be diminished or strengthened? If so, how and why? What types of unique explicit and tacit knowledge do suppliers possess that cannot be easily replicated by other sources? Did the buyer understand, prior to the online reverse auction, the types of knowledge that could not be replicated? What are the strategies and tactics used by sellers to retaliate against buyers in order to re-establish a sense of fairness? How satisfied are senior managers with online reverse auction results? This could be determined via questionnaire for a cross-functional group of senior managers from both buyer and seller companies in defined intervals such as six months, 1.5 years, three years, and five years after the first online reverse auction event. Finally, are there any circumstances under which buyers can use online reverse auctions while at the same time being in compliance with the *Principles for Business*?

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