

## **Characteristics of Supply Relationships and related People Management Issues**

**Marie Koulikoff-Souviron**, *CERAM Sophia Antipolis*

**Alan Harrison**, *Cranfield School of Management*

A large body of research exists on inter-organisational relationships and related concepts such as partnerships and strategic alliances. This is sometimes criticised for too much attention paid to the antecedents rather than to the management stage. Thus, Spekman et al. (1998) state:

“It would appear that while academics purport to understand the concept of alliance formation, the practice of alliance management continues to pose a significant challenge” (p.747).

Indeed, whilst a number of authors have proposed various dimensions to characterise supply relationships, there is a lack of understanding of the reality of management practices and techniques (Barringer and Harrison, 2000). Moreover the literature on relationships has often adopted a polarised view that has contrasted the “rhetoric” of partnerships with the “realpolitik” of power relationships, whilst possibly overlooking more subtle effects at the level of the relationship process (Scarbrough, 2000). Thus research has tended to remain largely at the surface of the phenomenon, in that it has not attempted to penetrate the complex network of interaction, which underpins such collaborative ventures. In particular, scant attention has been given to the management of the people aspects of collaborative relationships (Scarbrough, 2000). Indeed, research on alliances from a human resource perspective has been largely theoretical (Lorange, 1986; Schuler, 2001; Lajara et al., 2002), hence lacking empirical evidence on the actual effects of people management (PM) issues on the relationship.

This study aims to contribute to this debate by comparing “ideal” characteristics of dyadic supply relationships, derived from the literature with empirical results from two case studies: one in an inter-firm and one in an intra-firm context. The aim is to develop a comprehensive approach to the study of supply relationships, whilst jointly considering the organisational and people management aspects of such collaborations. The cases demonstrate a polar view of supply relationships with elements that bring “together” the partners by stressing the importance of working jointly and elements that “separate” the partners, which are rooted in conflict, asymmetry and power. Moreover, what emerged from the data were the pervasive effects of PM issues that contribute to this “together” and “separate” direction.

### **Seven Ideal Characteristics**

Most of the research conducted on characteristics of relationships aims at better understanding how the different dimensions can either contribute to partnership success (Mohr and Spekman, 1994; Monczka et al., 1998) or provide managerial guidance for running such relationships (Cooper and Gardner, 1993; Ellram, 1995). This review follows a similar path whilst attempting to bridge organisational features of supply relationships with PM aspects. Thus a seven-dimension framework is developed that includes goals, information sharing, relationship structure, coordination mechanisms, locus of decision-making, top management commitment, and compatibility. Related PM issues are identified for each dimension of the relationship.

#### *Goals*

“Mutual goals are the glue holding a relationship together in times of stress” (Wilson, 1995 p341). Shared goals are viewed as a key factor for establishing successful relationships (Ellram, 1995). They can only be accomplished through joint action and are a strong reason for relationship continuance (Wilson, 1995). Goals need not be the same, but each partner should have specific goals, which should not be incompatible (Das and Teng, 1997; Lambert et al., 1999). Joint participation in planning and goal setting is a way to clarify mutual expectations and define co-operative efforts (Mohr and Spekman, 1994).

### *Information sharing*

Two-way information sharing is a key factor in establishing and maintaining relationships (Ellram, 1995b; Wilson, 1995). Information sharing leads to information symmetry, and allows partners to identify and develop more commonalities (Das and Teng, 1998). Effective information sharing between the partners can be judged based on the quality of the information exchanged, namely its timeliness, accuracy and relevance. It can also be assessed based on the extent to which critical or proprietary information is exchanged (Mohr and Spekman, 1994; Monczka et al., 1998). Honest and open communication lines help strengthen the ties between the partners (Mohr and Spekman, 1994), in that issues are resolved through continuing dialogue (Bessant et al., 1994).

### *Relationship structure*

According to the relationship marketing literature, organisations can choose between the bowtie and the diamond approaches to inter-firm relationships. The bow-tie approach characterises arm’s length relationships in that it shows the interface is confined to a single point of contact, traditionally sales and purchasing, with the majority of the two firm’s functions far from each other in terms of communication and interaction (Kanter, 1989). In a diamond relationship, which characterises close relationships, there are multiple functions and units, which are in contact across multiple levels in both organisations (Ellram, 1995a; Kanter, 1994; Lambert et al., 1996). Such a broad involvement provides a stable foundation for the relationship (Frazier et al., 1988). A major disadvantage of diamond relationships, however, concerns the effort that may be required to manage the exchange. It becomes more difficult to keep relevant parties equipped with timely information, and the multi-functional cross-organisational coordination becomes more costly in terms of time and other resources (Carter and Ellram, 1994).

### *Coordination mechanisms*

The need to cooperate raises the issue of coordinating the exchanges between the partners (Borys and Jemison, 1989; Cooper and Gardner, 1993; Mohr and Spekman, 1994). The mechanisms that regulate the collaborative efforts within a relationship can be based on rigid, formal contracts or on more flexible and informal mutual adjustments (Bessant et al., 1994; Frankel et al., 1996; Ring and Van de Ven, 1994; Sobrero and Schrader, 1998). Coordination mechanisms should ideally be aimed at nurturing rather than controlling the relationship (Kanter, 1994). Thus shared responsibility for results can be contrasted with an approach to

### *Locus of decision-making*

Relationships can be characterised through the amount of centralisation and degree of freedom of decision of the relationship members (Van de Ven, 1976). A clear mandate from management is necessary for the employees within the relationship to be empowered to make

decisions on behalf of their firms (Ring and Van de Ven, 1994). When direct decision-making is supported, quicker, more visible and more effective decisions are made (Bessant et al., 1994). A certain level of autonomy can give managers the flexibility to adapt to the local requirements of the relationship (Kanter, 1994).

### *Top management commitment*

Top management support from both firms is identified as one of the key elements of success (or failure if it is missing) of relationships (Bessant et al., 1994; Ellram, 1991; Ellram, 1995), in as much as it provides the direction and resources needed for success (Ellram, 1991a). Top management involvement should not be limited to the early stages but should be maintained throughout the relationship (Kanter, 1989). Thus, comfortable personal relationships can develop between senior executives (Kanter, 1994).

### *Compatibility*

Sharing compatible values is an essential part of the relationship success (Lambert et al., 1996) in so far as they make it easier to set and achieve similar goals (Cooper and Gardner, 1993). However, operational and cultural differences can emerge after collaboration is under way. Cultural disparity may increase the probability of friction, but “bridge building” minimizes the friction and smoothes operations (Cooper and Ellram, 1993), in as much as people involved in the relationship are willing to develop the necessary skills to bridge the cultures (Kanter, 1994).

In the case studies that follow, the above framework (Table 1) will be tested against empirical findings from two strategic supply relationships: one in an inter- and one in an intra-firm context. The evidence from these cases will help us to judge in what ways supply relationships exhibit “ideal” characteristics and to what extent PM issues influence such relationships.

## **Research Design**

Case studies were based on a total of 84 semi-structured interviews with a wide range of employees and managers within each of the two dyads, including corporate, local site and HR management, engineers, and shop floor employees. The research design was thus conceived to create an in-depth understanding of the complexity of collaborative relationships by studying the views of managers and employees who work on both sides of the relationships. Thus, triangulation could be achieved by comparing these perspectives in order to allow a multi-faceted, pluralist view of the supply relationships. The two cases were selected based on a contrast between an inter- with an intra-firm context and cross-case analysis has involved identifying similarities and differences across the two cases. Conclusions shed a light on the specific organisational requirements of supply relationships.

### **Case Study 1: Inter-Firm**

Wheatco and Chemco were two US corporations that had much in common. Both were in the chemical industry, both leaders in their chosen activities, and of similar size (around \$2bn in sales). Their culture was close, centred on quality of products and services, safety and profit. Ten years ago, the two companies decided to form a partnership with the strategic objective of gaining competitive advantage through mutual access to low-cost raw materials. One of the outcomes of this partnership was the establishment in the UK of a small Chemco facility

alongside a large Wheatco plant. A fence line divided the two plants, with selected employees being able to pass between the two by means of a swipe card access. The two firms formed a “closed” supply chain, whereby they were customer of, and supplier to, each other.

The Chemco plant was built in 1991. It was dedicated to the production of a chemical additive used in the production of rubbers, paints and other compositions. The feedstock used in the Chemco process was supplied by Wheatco. The manufacturing process of the additive generated a gas, as by-product, which was recycled back into the Wheatco feedstock process. Half of the additive made on the Chemco site was sold to Wheatco and the rest to other customers in Europe and the USA. The production processes were operated on a round-the-clock basis and there was very little buffer stock within the supply chain loop. This close interdependency of the process meant that the operating teams were in contact on a 24-hour basis. There was a direct telephone link between Wheatco and Chemco, to allow easy communication and warning of any changes occurring in either of the processes or to inform of any shutdowns or production shutdowns.

The structure of the supply chain relationship was multifaceted, with interactions taking place at many levels. Locally it included plant management, engineers and operators. In the USA, an executive contact had been appointed by each firm in order to manage the relationship at a strategic level, especially in regard to the global contract agreement, which provided the commercial terms for the relationship. A joint Steering Committee was in place to determine the local operational strategy for the relationship and to provide guidelines to two other joint teams: quality improvement and technical teams.

## **Case Study 2: Intra Firm**

Recently created from the merger of two European companies, Tyrenco ranked amongst the world leaders in the discovery, development and marketing of innovative pharmaceutical products. In 2000, Tyrenco launched a supply chain initiative, called “SPAN”, aimed at improving the supply chain processes of its leading products. The focus of the program explicitly referred to three dimensions: (1) Addressing long- and short-term planning by implementing new processes; (2) Applying new technology for advanced planning and optimisation; (3) Providing an aligned organisation to fulfil the product supply chain goals. This third dimension of SPAN aimed at removing organisational barriers between Tyrenco’s Industrial and Commercial Operations, but also at implementing a more collaborative approach between the two pillars of the Industrial Operation organisation, that was the “Active Product Ingredient” (API) manufacture, which was the upstream chemical business and the “Drug Products” (DP) or downstream pharmaceutical operations.

This case study dealt with the relationship between two Tyrenco plants: the API site in Paris and the DP facility in London. Their collaboration was centred on the manufacturing of T-drug, one of Tyrenco’s strategic products, whose main indication was the treatment of breast cancer. In view of boosting product sales, there was a dual sourcing (Paris and London) for the manufacturing of the T-drug solution. The final steps, inspection and packaging were only performed in London. Relationships between the Tyrenco Paris and London sites were at arm’s length with little contacts between the sites, beside the operational coordination of the shipments of active ingredient and T-drug. One explanation was that the two sites were reporting into different regional heads (API France and DP North and South Europe) and as such were working separately from each other. However, the introduction of SPAN clearly aligned the two sites as key owners of the strategic T-drug supply chain, thus forcing closer links amongst a wider range of managers and employees.

## **Discussion**

A comparison of the empirical data with the “ideal” characteristics showed that neither of the two cases displayed a unitary picture. Indeed, they both demonstrated, within each dimension, a mix of elements that pulled the partners “together” and other elements that “separated” the partners. Elements that brought “together” the partners were in line with the “ideal” characteristics identified in the literature. They stressed the importance of working jointly, for mutual benefit and shared success. Simultaneously there are elements that “separated” the partners, which were rooted in conflict, asymmetry and power. The similarities across both cases pointed to stable features of supply relationships that transcended the differences in governance structure, whereas differences resulted from a mix of case idiosyncrasies and inter- versus intra-firm context. Moreover, a stratified view of the relationship emerged from each dimension, which showed that, at different relationship levels, a diverse perspective could be adopted. This pertains to the corporate/local levels, but also, within each site to the various layers of interaction.

This research investigated seven dimensions of the relationships. Other dimensions, such as trust, commitment, conflict, dependence or power also emerged from the empirical data, which were captured under the “together” and “separate” constructs. Although no attempt was made to link PM issues and relationship performance, one could postulate that “together” characteristics would facilitate a stronger relationship and as a result would lead to business benefits and that conversely the “separate” characteristics would result in deteriorating the relationship and therefore deteriorating business performance.

What was striking about PM issues was the way that they were intermingled with the relationship characteristics. Another striking feature was the extent of cross-case similarities, which pointed again to possible stable requirements of supply relationships in terms of PM. There is a lot of consistency between the PM issues that emerged in both cases. High people turnover, site bonus schemes, lack of face-to-face interaction, and communication at shop floor level were viewed as critical. Communication at shop floor level appeared as particularly critical at WTC-CH, in view of the central operator role within the relationship. It could be justified as well at Tyrenco in that criticality of the product application required specific management attention on shop floor communication.

## **Conclusion**

This article has argued that the seven dimensions and their related PM issues could be used as a framework for assessing the way that the supply relationship are managed and for exploring the relation between dimensions of supply relationships and PM issues. The representation of the polarity of supply relationships echoes the idea that the literature has a contrasted view of supply relationships between the rhetoric of “partnership” and the “realpolitik” (Scarborough, 2000). However, the above representation is different in that it argues for a concomitant interplay of the two directions: “together” and “separate”.

The polar view of conflict coexisting with cooperation is a central theme within the inter-departmental conflict literature, especially in the context of mutual task dependence (Walton and Dutton, 1969). Indeed conflict is also a way to ensure that the relationship retains its vitality (Dwyer et al., 1987) and competition can be viewed as an indispensable feature of relationships (Das and Teng, 1997). What emerged from this research was the inherent tension between, on the one hand, the obligation to collaborate in order to accomplish the purpose of the relationship (the “together” direction) and, on the other hand, the concern for

achieving other internal priorities that could to different extents, conflict with the relationship (the “separate” direction).

In conclusion, this article has sought to demonstrate that the seven-dimension framework was useful to develop a view of the requirements of supply relationships that are linked to the need to jointly work together to achieve the relationship purpose. Moreover, it allowed to capture other underlying themes that pertained to the polar view embodied in the “together” and “separate” directions.

- Bonus schemes as a source of tension: The reference to rewards as a source of conflict when they emphasise the separate performance of each party, has been highlighted in the inter-departmental conflict literature (Walton and Dutton, 1969). The finding that rewards are a source of contention is also in line with Scarbrough’s research on SC relationships, who found that the existing pay system was a key constraint on the implementation of process-based work practices (2000 p16)

- Disruptive effects of high people turnover: this has to do with the fact that individuals who work within the relationship develop personal bonds over time, so that the effect of turnover is to “restart the clock” of these inter-personal relationships. Thus, a loss of flexibility and efficiency is associated with the arrival of new people (Ring and Van de Ven, 1994 p104). A specificity of the WTC-CH case was to show the effects of people turnover at operator level.

- Lack of understanding of the partner’s operations, associated with a lack of interaction: this issue, related to the management of the relationship, is mentioned in Borys and Jemison as inducing “resistance (...) from unexpected sources” (Borys and Jemison, 1989 p241). The possibility, central to the WTC-CH case, of having exchange visits of shop floor and supervisory personnel has been referred to in other studies (Hunter et al., 1996 p243). The development of an understanding of the partner’s constraints also points back to the central relational element that is at the core of the relationship.

There are three key differences between PM issues identified in table 1 and the case data. Whilst goal communication was presented as a recommended practice (Bessant et al., 1994; Slowinski, 1992), this has not been so much supported by the case evidence, in that the preferred way for communicating relationship goals was through the existing performance management system rather than through any other form of internal communication. Specific attention to communication at shop floor level emerged as an important issue in both cases, although it was not specifically referred to in the literature reviewed. The issue of different levels of empowerment mentioned in the literature (Kanter, 1994) did not emerge as such, in that employees from each firm would perceive themselves as more empowered than their counterpart – but this was not expressed as an issue. The three PM issues that have been identified are in line with the literature. However, other PM issues identified in the literature show that this list is not complete and can be contingent on the case context.

In conclusion, this article has shown that the “together” and “separate” directions were the result of the interplay between dimensions of the relationship and PM issues. This highlights the importance of including a review of people management effects as an integral part of the study of supply relationships in order to achieve “Collaborative advantage”.