

University of Wollongong  
**Research Online**

---

Sydney Business School - Papers

Faculty of Business and Law

---

2009

**Reconfiguration of Operational Relationships Post the Current Global Economic Crisis**

Lee Styger  
*University of Wollongong, [lstyger@uow.edu.au](mailto:lstyger@uow.edu.au)*

Follow this and additional works at: <https://ro.uow.edu.au/gsbpapers>

 Part of the [Business Commons](#)

---

**Recommended Citation**

Styger, Lee: Reconfiguration of Operational Relationships Post the Current Global Economic Crisis 2009, 12-17.  
<https://ro.uow.edu.au/gsbpapers/254>

Research Online is the open access institutional repository for the University of Wollongong. For further information contact the UOW Library: [research-pubs@uow.edu.au](mailto:research-pubs@uow.edu.au)

---

# Reconfiguration of Operational Relationships Post the Current Global Economic Crisis

## Abstract

It is likely that classical models of strategic alliances may not be applicable moving forward into the new world economy post the current economic crisis. Traditional business models have considered each part of the business process in isolation, typically finance is remote from new product development, product development is remote from supply chain and operations etc. Prior to the economic crisis it was not unusual to see typical traditional silos within an organization never meeting, posing the question that if internal relationships were never fully forged how could a strong external strategic alliance be built and maintained? Furthermore, this silo based approach seems to have been more prevalent in government and not for profit organizations where clear lines of departmental demarkation have remained the mainstay of management practice throughout the generations of stewardship. This article discusses the principle models of dip dynamics and sustainable dependency interaction in the light of developing strategic alliances within the new world economy. Furthermore, the article will argue that it is in everybody's best interest to maintain an environment of fiscal and environmental well being. By drawing on global research, a new roadmap is offered for all parties involved in the reconfiguration of their strategic alliances.

## Keywords

relationships, post, current, reconfiguration, global, operational, economic, crisis

## Disciplines

Business

## Publication Details

Styger, L. (2009). Reconfiguration of Operational Relationships Post the Current Global Economic Crisis. Supply Chain Perspectives, 10 (3), 12-17.

# Reconfiguration of Operational Relationships Post the Current Global Economic Crisis

By Lee Styger

## Abstract

*It is likely that classical models of strategic alliances may not be applicable moving forward into the new world economy post the current economic crisis. Traditional business models have considered each part of the business process in isolation, typically finance is remote from new product development, product development is remote from supply chain and operations etc. Prior to the economic crisis it was not unusual to see typical traditional silos within an organization never meeting, posing the question that if internal relationships were never fully forged how could a strong external strategic alliance be built and maintained? Furthermore, this silo based approach seems to have been more prevalent in government and not-for-profit organizations where clear lines of departmental demarkation have remained the mainstay of management practice throughout the generations of stewardship. This article discusses the principle models of dip dynamics and sustainable dependency interaction in the light of developing strategic alliances within the new world economy. Furthermore, the article will argue that it is in everybody's best interest to maintain an environment of fiscal and environmental well being. By drawing on global research, a new roadmap is offered for all parties involved in the reconfiguration of their strategic alliances.*

## Introduction

Recent high profile failures in several "safe" blue chip companies have left billions of dollars of debt within their "strategic partners" (i.e. in their supply chain). This debt is unlikely to be recovered because there is no precedent for the magnitude, severity or indeed speed of the recent economic crisis and as such provision could not have been made adequately to offset the risk.

It has been reported recently that General Motors left a debt of \$13 billion when they filed for Chapter 11 in June 2009 (Braithwaite et al., 2009). This debt has had the dual effect of driving many of their strategic partners into Chapter 11 filing also and thereby destroyed the commercial, professional or per-

sonal relationships within these structures. Furthermore within a free market economy the attempted and actual intervention by governments in such cases raises questions of governance within the political arena and indeed whether governments well meaning intent in such cases misplaces real future sustainability within market places (i.e. is the inevitable being prolonged at unnecessary cost and waste?).

The underlying premise of dip dynamics suggests that organizations will not recover in typically classical ways and it will be necessary to reconfigure core strategic alliances against "new economy" strategic needs. For years the benefits of holistic strategic alliance management have been well advocated (Hines 2006). However, in light

of the recent economic downturn, how well these were understood or indeed implemented in larger organizations has to be questioned, especially when we take into consideration the whole process chain of any given organization. It is certain that moving into the next generation of alliance building, a combination of harder and softer measures will be necessary in order to achieve full business and community sustainability.

## The Principles of Dip Dynamics

One of the hidden aspects of the economic crisis to many outside observers has been the fact that the pool of suppliers and resources has contracted significantly. For some sectors resource starvation has become critical and contracts are now

being lost because of some supplier's inability to supply on-time, to specification and within expected risk profiles (Anon 2009).

Currently, there is a popular belief that there will be a wealth of resource available on the up-turn due to the current massive downsizing. However, the reason why there is likely to be a scarcity of competent suppliers lies, almost hidden, in the concept of Dip Dynamics.

**Dip Dynamics**

Currently, many business sectors appear to be experiencing a process of dip-dynamics, and depending on the tier of supply, companies will be at one of the four stages of dip and recovery, these stages are:

- The Drop Zone
- The Slap Zone
- The Balance Zone
- The Reconfiguration Zone

Figure 1 illustrates the principle of Dip Dynamics. It assumes that companies have been operating at the 100% line for their business pre the economic crisis (i.e. they were operating at the maximum they could achieve in a strong economic environment). Rapidly, their marketplace retracted. In many cases by over 50% (60% - 80% have been reported), causing the owners to cut their business by at least half.

The downsizing has included internal and external elements. However, the dynamic is not that simple because, initially, if a company has to cut its business by half, then they are forced to cut their resources, inventory, people and supply chain by more than half.

This is because there is significantly more value in their supply chain in terms of outstanding orders to suppliers, work in progress and stock etc.

that need to clear though the system and this takes time to accomplish. As such, business is paralyzed, there is no activity for some time because the bull-whip effect caused during this time is settling itself down.

After some time companies begin to report work load increasing slightly. This is due to the settling and re-calibration of the new demand within the chain and the need to bring some new orders back through the supply chain. Companies have gone from really busy to almost no work overnight, to modest increases from an almost zero starting point.

Mistakenly, people think that at this point they are experiencing the green shoots of recovery, and business will grow rapidly again to where it was before the drop. Unfortunately this does not appear to be the case. Work typically bounces along for a while because it is not possible to establish the market size and traditional forward planning protocol gives way to reactionary ordering.

Many business leaders believe that their businesses are going to grow again and get straight back up to where they started prior to the drop, but there is now a different dynamic. Businesses were at the top of their capability, but they have now halved their workforce, stock and working capital not to mention their line of credit. In ef-

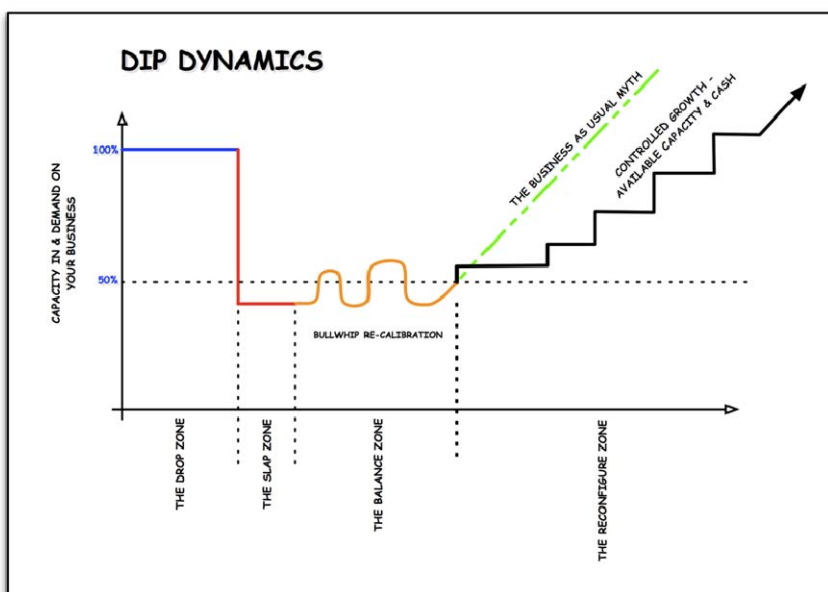


Figure 1: The Principle of Dip Dynamics

fect, business has been forcefully reconfigured.

**The Concept of Non-Rational Supply Chains**

Fundamentally business has moved into a new world order, and new world organizations have new world supply chains and new world supply chains demand new world relationships.

The concept of non-rational supply chain (NRS) relationships surpasses more traditional “bow tie” linear models by assuming that:

- A network of competent resource is present but not necessarily simultaneously active (i.e. an organization may be perceived to be a critical supplier but not necessarily be active in supply at the point of assessment)
- Objective or task responsibility is not necessarily devolved into the same supplier each time the relationship is activated (i.e. unlike a traditional supply chain model, first tier supply status is never guaranteed in a non-rational supply chain, but assigned at each activity)
- Reliance on supply is not based on a single node of activity but rather (potentially) limitless combinations of nodes (i.e. there is not necessarily a single road or channel of supply)
- Supply demand can be rapidly converted into supply deliv-

ery, because channels become networks that place each node (“tier”) closer to the point of activity (focal company or end customer)

- Value delivery becomes critical (i.e. a focus on total cost of ownership / total cost of supply)
- Objective risk sharing transcends supplier contracts
- Channel management becomes network management

Relationship management within a non-rational supplier environment demands a systems approach that recognizes supplier networks that are more in line with that of social networking service providers rather than traditional channel relationships (Berger et al, 2001; Harkin, 2009, Mukherjee, 2009). This concept goes far beyond that of “virtual supply chain” relationship management (Chang, 2001). Indeed virtual supply chain relationship management has unfortunately shrouded deeper understanding of non-rational supply chains for far too long. This is typically because non-rational supply chain relationships are difficult to map, and each one takes on an almost organic form that needs defining and positioning individually (see Figure 2).

In short there is no prescriptive theoretical model that fits each scenario. As such non-rational supply chains have been described as virtual for far too long. The major problem is that whereas a virtual supply chain can be formed and disbanded for any given task, and does not necessarily have any formal structural relationship, a non-rational supply chain can be in place with formal relationships, yet significant parts can be in hibernation for protracted periods without penalty or risk.

Traditionally management of the supply chain has been based around maintaining strong channel relationships to ensure continuity of supply (Cohen and

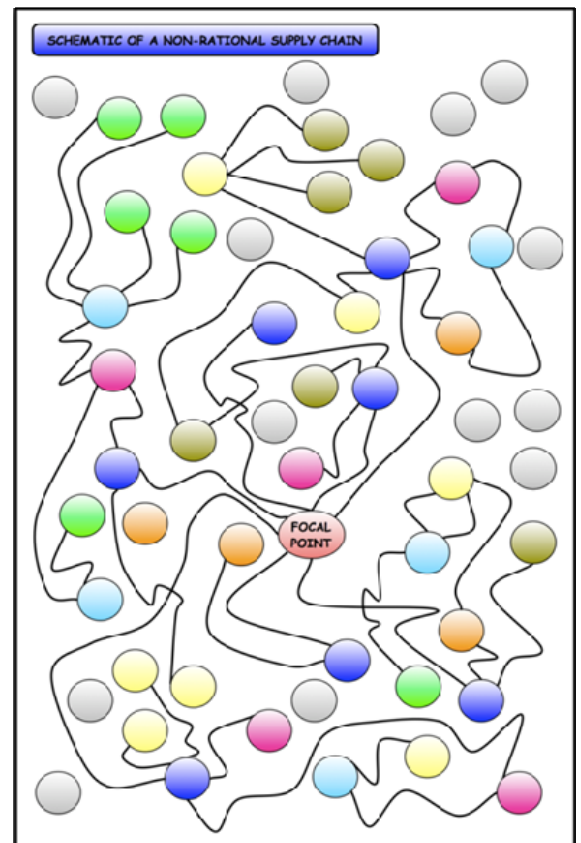


Figure 2: Schematic of a Non-rational Supply Chain

Roussel, 2005; Fawcett, 2007; Coyle et al, 2008). A single node of failure could cause catastrophic failure even if multiple sourcing policies were implemented close to the focal company. Typically however, supply chain failure can be attributed to smaller suppliers embedded well away from the focal company and whose management was usually outsourced to other suppliers closer to the focal company. The premise with a non-rational supply chain is that the network becomes “self healing” insofar as a single node of failure is surpassed by the network rapidly reconfiguring to maintain continuity of supply without the focal point (company) necessarily directing the reconfiguration.

On the one hand, the competitive advantages of non-rational supply chains are attractive to many organizations committed to customer focus and rapid response delivery and/or rapid new product development and introduction. However, on the other hand, the change from previous philosophies to the new philosophy can be traumatic. On the assumption that the change is not imposed or evolved, but rather conscious, then significant cultural and operations change is necessary that includes a step change in management thinking that can be far beyond the intellect of many traditional practitioners especially when classical models of supply chain management and relationship management

no longer apply.

### The Challenges of Managing Reconfigured Supply Chain Relationships

To coin the phrase “things ain’t what they used to be” and this statement is ever more pertinent in the context of managing relationships in non-rational supply chains.

For a non-rational supply chain (relationship) to be effective, the organization must consider its internal and external “transaction nodes” (point of interaction or product/ service exchange) and replace more typical silo-based management styles with a model more in line with that of a social network. It is this social networking model, within the framework of the organizational and supply community, and importantly appropriate to the corporate objective, that should enable the host (or focal organization) to generate profits. However, it is the contextual management and direction of the non-rational suppliers that remains challenging, specifically in relation to:

- How to configure the supply chain
- How to guarantee supply and cash flow
- How to communicate to the supply chain
- How to transact within the supply chain

- How to cost effectively manage the supply chain
- How to protect the intellectual property and configuration of the supply chain
- How to generate profit for the supply chain

A typical belief set is that fiscal sustainability and seemingly random supply chain interaction cannot coexist. However, the basic principles of Lean would contradict this argument (Evans and Lindsay 2008; Jones 2008). A customer-focused business model based on cost-down and value-up, as illustrated in “Styger’s Diamond” (Figure 3), is very much in line with both fiscal sustainability principles and indeed the customer-focused principles of a non-rational supply chain.

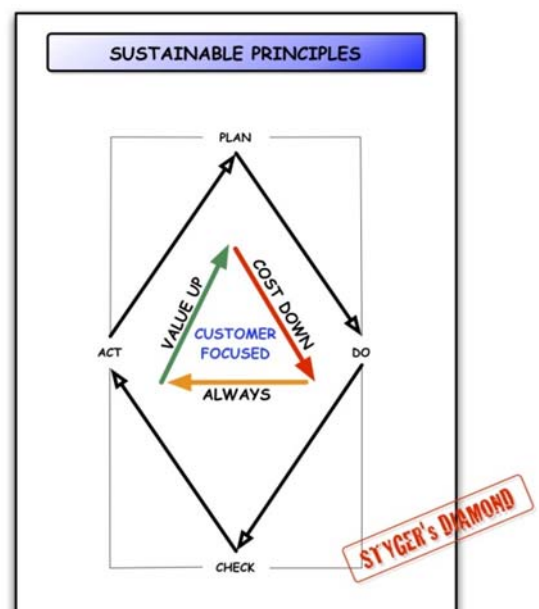


Figure 3: Styger's Diamond of Sustainable Principles

However, for this type of initiative to be manifest, new multi-dimensional models of business relationships need to be devel-

oped. Typically, the notion of how a multidimensional relationship map or dynamic goal succession modeling can be developed around corporate responsibility, physical exchange of goods and services and indeed the ability to deliver new products for an ever more discerning marketplace with stakeholder relationships at the centre is a step too far for many. Yet it is this level of thinking that is necessary to deliver a sustainable and prosperous future for organizations and their stakeholders.

Overall, it is certain that the most sustainable and profitable solution for the entire relationship has to be one where “consensus” lies at the centre of any advanced and multi-dimensional mapping process. The notion that a single “focal company” or entity will have the power to direct a non-rational supply chain relationship into the future seems unlikely due to the dynamic and almost random manner that the relationship and transaction channels will be formed and hibernated based on the task and opportunity.

### Conclusions

One of the major aspects of the economic crisis has been the decimation of traditional supply chains, and with it their operational relationships. Typically, there appears to be little supply chain resource and, importantly, no supply chain reserve. As such, growth within the con-



finances of classical supply chain and organizational theory may not be possible for many organizations.

Furthermore, there appears to be a reverse bullwhip effect, where *the real dynamic of the supply chain becomes more distorted the further the commentator is from the actual point of action*. Reverse bullwhip has the effect of instilling a false sense of well-being into all stakeholders and a belief set of “she’ll be right”, that in turn opens up great opportunity for those organizations who have a competitive drive to win markets.

Alarming it is likely that a second tsunami is inevitable based around failing companies running out of critical resources during the upturn coupled with lack of suppliers capable of delivering competitively at the same time that further government or institutional bailouts are unsustainable.

Operational relationships, within a context of customer focus and overall responsiveness are certain to become ever more challenging in the new world economy as will be the pressure on businesses to demonstrate higher levels of corporate governance and social responsibility. Relationships will become more valuable and some may even be viewed within the context of a corporate asset.

Whether organizations can encompass a culture of social networking instead of silo based structures remains uncertain. What is likely is that classical models of supply and relationship management principles will not be applicable in many cases. Moreover, traditional silo-based and channel structures, either internal or external, have been impacted and changed beyond reasonable definition (and indeed recognition) due to this new world economic condition and as such, their validity is now questionable moving forward into the brave new world.

## References

- Anon (2009): Meeting the 2050 Freight Challenge, Infrastructure Partnerships Australia, Sydney
- Berger, A. J. and Gattorna, J. L. (2001): "Supply Chain Cybermastery", Gower, ISBN 0-566-08-13-9
- Braithwaite T, etal (2009): GM to File for Chapter 11 Protection, Financial Times, 31 May 2009
- Chang T, Wysk R. A, Wang H (2001): Computer-Aided Manufacturing, Prentice Hall. ISBN 0-13-754524-X
- Cohen S, Roussel J (2005): Strategic Supply Chain Management: The 5 Disciplines For Top Performance, McGraw-Hill, ISBN 0-07-143217-5
- Coyle J, J, Langley Jr, C. J, Gibson, B. J, Novack, R. A, Bardi, E, J. (2008): Supply Chain Management: A Logistics Perspective, South-Western Cengage Learning. ISBN 13: 978-0-324-22433-7
- Evans R, Lindsay W. Manufacturing for Quality and Performance Excellence, Thomson South-Western, 2008. ISBN 13: 978-0-324-38227-3
- Fawcett S.E, Ellram L.M, Ogden J.A (2007): Supply Chain Management: From Vision to Implementation, Prentice Hall, ISBN 0-13-101504-4
- Harkin, J (2009): "Cyburbia", Little Brown, ISBN 978-1-408-70113-3
- Hines T (2006): Supply Chain Strategies - Customer Driven and Customer Focused, Elsevier Butterworth-Heinemann. ISBN 10: 0-7506-5551-8
- Jones D. T (2008): The Next Lean Decade: An agenda for Action, Lean Manufacturing, The Foundation of Success, Manufacturing Engineering, Society of Manufacturing Engineers
- Mukherjee, A., S. (2009): "The Spider's Strategy", Pearson Education Inc., ISBN 0-13-712-665-4
- Terlep S, Helliker K (2009): Majority of GM Bondholders Back Debt-for-Equity Deal, The Wall Street Journal, 31 May 2009

**Dr Lee Styger** has over 25 years experience in business reconfiguration, new product development, international research and advanced manufacturing technology. In 2004, Lee founded the Business Reconfiguration company Tiger Bay Consulting. Tiger Bay engages actively, with its clients, in Intellectual Property creation and business reconfiguration. He has also lectured in leading universities in the UK, Asia and Australia. He can be contacted at [lee@leestyger.com](mailto:lee@leestyger.com).

