

**Abstract.** *The relation between corporate governance practices and firms' performance is a common research subject for academics. This article goal is to present theoretical details regarding the possible relation between supply chain governance practices and supply chain performance, one issue less discussed at an international level. The first section of the article is related to supply chain governance as a new research area for academics. The main benefits of this approach, in comparison to corporate governance, are presented. The second section contains aspects concerning supply chain performance, reflecting the impacts of extended governance – ensuring a good reputation on the market and increase financial performance. The last part of the article addresses an overlapping question: are there any ways of modeling the relation between supply chain governance practices and its performance?*

**Keywords:** financial performance, reputation, supply chain governance, supply chain performance.

## THE RELATION BETWEEN SUPPLY CHAIN PERFORMANCE AND SUPPLY CHAIN GOVERNANCE PRACTICES

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## 1. Introduction

There are several definitions for governance; there is a common question whether governance is a synonym for management. Ruuska et al. consider governance as the mechanisms or processes that affect to how either a single transaction or recurrent transacting is organized ex ante and carried out ex post between two or more actors, either within the boundaries of a single organization or between two or more organizations (Ruuska et al., 2010).

For this paper, governance is defined as the rules, the structures and the institutions that guide, regulate and control social life, features which are emanated from power. Governance is not decision making, is not management, but is the framework where decision making is made, for any system.

There are many names used within literature when it comes to the governance of groups of organizations, such as network governance, inter-organizational governance (Vurro et al., 2009; Mahapatra et al., 2010), inter-firm governance (Ryu et al., 2007), trans-organizational governance (Van der Meer-Kooistra and Scapens, 2008). For groups of organizations, the term we consider, is that one imposed at an international level for multiple firms creating a supply for customers – supply chain. Together with other specialists, we consider in the present article a very new subject, supply chain governance and its impact on supply chain performance.

During the last decade, governance, as a new scientific field, was dominated by corporate governance. The concept refers to organizations as single entities, comprising as a basic element the relation between shareholders and managers (Thomson and Jain, 2006), called the principal – agent problem or the shareholders' perspective (Ruuska et al., 2010); a more advanced view on corporate governance refers to the relation between organizations and stakeholders (Ruuska et al., 2010), called the stakeholders perspective.

One hypothesis we consider within this article is that even the most advanced view on corporate governance is useful for single entities only. It is a framework for companies, which have headquarters and manufacturing capabilities within one country. This framework is out-dated in comparison to reality, ruled by globalized companies, with supply chain partners placed all over the world. Economic organizations act nowadays as inter-organizational entities. Chains of companies which collaborate realize a supply for customers, responding to their demand. They form "supply chains".

Most researches performed within governance area refer to political or corporate governance, without covering the complexity of supply chain governance. Supply chains are conglomerates formed by several corporations, in order to respond to customers' demand. Supply chain is a concept with many understandings. We shall define for this article a supply chain as a group of companies creating the supply for a product or service. This definition is given considering the fact that the term supply chain has evolved from Porter's value chain, and that supply chain should be used by specialists from several research areas but logistics researchers (Mentzer et al., 2001).

## **The relation between supply chain performance and supply chain governance practices**

As a field of governance, supply chains are complex systems with different structures and power proportions between partners.

The groups of organizations are the real structures which create products in this new economic order of the world. There are few companies being able to realize products by themselves. That's why the governance of companies' interactions is necessary. A supply chain is more than multiple dyadic relations between several companies. Governance has been commonly considered the framework for a two-party relationship. This case is impossible for supply chain governance. Our understanding for supply chains is that real supply chain function as a whole extended organization. Based on specific contracts, a group of companies create a supply for a product, but if there the continual relationship is missing, there is no supply chain.

It is a challenge to define a specific delimitating line between supply chain governance and supply chain management, the hypothesis we consider is that supply chain management refers to the operational side of a supply chain, while supply chain governance is a more strategic approach regarding the partners of the supply chain. Usually governance stands for the framework where management acts, the rules which are imposed by shareholders and other bodies. For supply chain governance the situation is the same: does the coordinator or the coordinators of the chain have the possibility to influence partners' actions and how? For this article, supply chain governance is the mechanisms used by different actors from within the supply chain to influence and control the actions of other supply chain partners.

### **2. Supply chain governance**

Supply chains are equilibrated or non-equilibrated structures. Gereffi (in Loconto, 2010) has identified five types for value chain governance: hierarchy, captive, relational, modular and market – ranging from high to low levels of power asymmetry. One company can have total control over another, here we face a hierarchical relation – it is a hierarchy. The opposite situation is the market relation. These types reflect the relation that can occur between two partners. If we consider a supply chain as a set of multiple dyadic relations, Gereffi's view can be extended for supply chains, as we do below:

An asymmetric supply chain is usually a long-term relationship, having as coordinator the producer or the buyer, and is commonly run as a hierarchical system. *Hierarchical supply chain governance* seems to be the right term for it. The coordinator can implement an extended corporate governance structure, without taking into account partners' interests. This type of governance fits for hierarchy and captive governance from Gereffi's classification. Captive governance is the case when smaller suppliers have only one important customer.

In opposition, market governance implies a short-term relation between equal partners. The costs and barriers to leave the chain are low. In this case, there are no coordinators, while all companies function autonomously. Supply chain governance exists at a low level or it just does not exist. There are probably no structures for

coordinating the whole chain. It is the case for modular and market governance among partners from Gereffi's theory. The framework for supply chain governance has been many years dominated by the transaction cost economics theory. Transaction cost economics is concerned with the management of transactions in an efficient manner through the least cost form of governance and is based centrally on the assumption of firm opportunism (Vivek et al., 2009). There are several elements which influence the efficiency of a relation; there are factors which inhibit a relation and create supplementary costs (barriers), or others which increase the efficiency of a relation. At an inter-organizational level, this theory gives the opportunity to a firm to choose from a contractual relationship with an external supplier to hierarchy based governance – i.e. firm integration. There are several intermediary forms, such as joint ventures and franchises. Transaction cost economics theory suggests that *relationships between companies are transactional*, and they exist at arm's length (Vachon et al., 2009). In this case, an organization changes suppliers very often and supplier dependency is avoided.

The last situation proposed by Gereffi implies relational governance between partners. Implemented at the supply chain level, it could reflect governance definition. Rules, structures and institutions that guide, regulate and control the chain can be developed. This is the *relational supply chain governance*. Why would a wealthy company opt for such a model? There are reputational benefits; the company has the opportunity to align to the current international governance practices. Fair-trade includes new governance elements, such as accountability, transparency, inclusivity, duty in order to ensure that the interests of the poorer are considered by chain coordinators (Blowfield and Dolan, 2010). There are also economic benefits generated from a long-term relationship: priority to producing specific parts, better coordination.

Another model which can be adopted for supply chain governance is *network governance*. This model exists as a policy network - instead of regional governments these networks are formed by several actors who share common interests and who consider that cooperation is the best way to achieve them. There exist state or non-state actors (civil society, private companies); they can include multi-level actors (from regional, national or international level). Instead of market or hierarchical governance, there is a durable bargaining system linking independent actors based on trust for long term relationships (Messner and Meyer-Stamer, 2000). There is the equalitarian network, where all partners have the same rights and obligations. There are equal partners, the cooperative character of their relation is very strong, and they are usually called networks (Provan and Kenis, 2007).

It is obvious that corporate governance models insist on holding the balance between individuals' and organizations' goals (Claessens, 2006), while supply chain models should focus on the relations between several companies participating to create the supply. There are few studies concerning inter-organizational governance because scholars are more organizational oriented or that the study of this multi-organizational governance is costly and time consuming (Provan and Kenis, 2007).

## **The relation between supply chain performance and supply chain governance practices**

A common assumption is that governance is not a proper approach for collaborative networks.

One possible question regarding supply chain governance is whether bigger companies, by externalizing some of their functions, did not intend to avoid corporate governance. If that is the case, there are several studies who suggest that supply chain governance should correspond to the need for a sustainable system of control.

### **3. Supply chain performance**

The performance of supply chains is very often considered by comparison to firm's performance. Though, there we have financial and non-financial performance measurements. One model used for measuring financial performance at supply chain level is the governance value analysis (GVA), proposed by Gosh and John (Hammervoll, 2009). It takes into account two elements of the created value: the relationship value (joint profits) and the actors value (share of the joint profit). Based on these two values, the authors try to justify the relation between two companies, using mostly the transaction cost economics theory (TCE). Several other researches have extended the value chain creation measurement from Balanced Scorecard (BSC) to the Supply Chain Operations Reference model (SCOR) (Barber, 2008).

The truth is that there are no overall accepted methodologies for measuring value creation within a supply chain, all they suggest is that performance cannot be measured using only one key performance indicator from one side of the business, but more than one have to be used. If we consider both the negative results which a supply chain can generate, such as bad reputation, bad image for the customers, loss of trust from customers and different other organizations – the situation gets even more confused. However, probably a general supply chain performance score shall be composed by positive influences and negative influences.

An issue which is commonly accepted is the fact that performance should be measured at the conglomerate's level and not for each part of the supply chain. This acceptance insures that supply chain governance can be perceived for the future as one of the possible causes of the general supply performance.

### **4. Modeling the relation between supply chain governance practices and its performance**

The main question we address in this article is: how this subject - "supply chain governance performance" – should be approached by researchers.

Possible questions come from corporate governance performance research. Most of the actual studies try to connect governance practices with firm's performance. There are many variables taken into account: corporate board dimensions, corporate board independence, corporate board structure, corporate board functioning as a social system, board succession planning, implemented corporate governance models, internal and external audit practices, and control mechanisms.

We have searched for different variables which should be considered for supply chain governance and we have discovered that the researches are at the beginning. Anyway, some variables have been identified:

- Gyau and Spiller (Gyau and Spiller, 2008) suggest that governance types influence partnerships' performance. They argue that the change from the spot market to real relations increases supply chain performances;
- The existence of inter-organizational teams can positively influence supply chain performance (Fawcett et al., 2006);
- The existence of symmetric information sharing improves supply chain performance (Burgess and Singh, 2006);
- Another variable which is considered, but is harder to be measured, is the strategic alignment between partners (Vachon et al., 2009).

The similarities between supply chain governance and corporate governance seems to exist even regarding this research approach. However, researches are fewer in this area, one major problem being the lack of a commonly accepted theory regarding supply chain governance. The lack of data concerning supply chain collaboration and the lack of the supply chain governance practices are also limitations for researchers covering this field of study.

### 5. Conclusions

Given the novelty of the subject, the mainstream research paths are missing for supply chain governance. Setting a beginning for this area is a real challenge for us, but is also a concern of other international researchers. There are specific issues which we covered within this article: we have presented our view regarding supply chain governance and we made a clear delimitation between supply chain governance and supply chain management, the most important models for supply chain governance were presented (hierarchical, relational and network governance).

Regarding the main concerns we have for supply chain governance research, the beginning of this field of study has copied at a low level what has been studied within corporate governance. There are many disadvantages a researcher beginning the study of this field has: a theoretical framework is not well established, the data access for studies is not possible through different bodies such as stock exchange markets, national regulators (as for corporate governance) and there are no mainstream researched subjects for this area.

In conclusion, we believe that the right approach is to start with different case studies which will help us to identify the main hypotheses which shall be tested in further empirical researches. Given the low number of Romanian supply chains, number which has to be further identified, one possible approach could be to study how international supply chains, with subsidiaries in Romania, perform a supply chain governance.

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