Chapter 11

Supply Chain Relationship Management
Lecture Outline

• Supply Chain Relationships
• The Role of Trust
• Managing Conflict and Dispute Resolution
• Negotiation Concepts, Styles, and Tactics
• Relationship Management in Practice
Importance of Relationships

SCM is primarily about the management of relationships across complex networks of companies

• Issues include:
  – respect and trust
  – joint ventures
  – negotiation
  – contracting
  – conflict resolution
Relationship Management as an Element of SCM

*FIGURE 11.1*  
Relationship management as an element of SCM.
Relationship Dimensions

Relationships should be segmented based on how much management is needed.

Two Dimensions:

• Scope
  – degree of responsibility assigned to supplier
  – greater scope means greater dependence

• Criticality
  – extent to which the sourced item or task impacts ability to perform core competencies
Relationship Dimensions Continued

As scope and criticality increase, so does the risk to the buyer

FIGURE 11.2 Nature of supply chain relationships.

More transactional relationships

More relational relationships

LOW

Criticality of sourced item

HIGH
Relationship Matrix

Four categories of relationships:

**FIGURE 11.3** Supply chain relationship matrix.
Non-Strategic Transactions

- low scope and criticality
- transaction oriented relationships
- typically standardized products
- limited buyer/supplier communication
- typically alternative sources of supply
Contractual Relationships

- high scope and low criticality
- moderate levels of communication
- some relationship management required due to size of arrangement
- relationship based on formal contracts
Partnerships

- low scope and high criticality
- limited frequency of interaction
- strong trust between supplier and buyer
- relationship management not extensive
Alliances

- high scope and high criticality
- high interaction frequency
- significant trust and commitment between buyer and supplier
- significant investment in relationship management
- products and services are highly customized
- typically large transaction volumes
FIGURE 11.4
Managing supply chain relationships.
Power-Based vs. Trust-Based Relationships

- Power-Based Relationships
  - historical basis of relationships
  - one partner maximizes its profit at expense of others
  - extracting unfair concessions hurts the company if balance of power shifts
  - creates competition rather than cooperation
  - decreases supply chain profitability
Power-Based vs. Trust-Based Relationships

• Trust-Based Relationships
  – development of joint objectives
  – greater sharing of information
  – elimination of duplication of efforts
  – coordination easier to implement
Relationship Evolution

• Contractual Based View
  – formal contracts used to ensure cooperation
  – the initial view of supply chain relationships

• Relationship Based View
  – trust and cooperation viewed as a result of interactions over time
  – a strong supply chain relationship evolves toward the relationship-based view over time
Developing a Trust-Based Relationship

Key Steps:

• Assessing the Relationship
  – identify the mutual benefit
  – equity

• Identifying Operational Roles
  – sequential interdependence
    • activities and information of one partner precedes the other – traditional approach
  – reciprocal interdependence
    • parties exchange information in both directions
Developing a Trust-Based Relationship Continued

Key Steps Continued:

• Creating Effective Contracts
  – contracts that encourage negotiation as unplanned events arise

• Designing Effective Conflict Resolution Mechanisms
  – specify rules and guidelines
  – frequent meetings
Managing a Trust-Based Relationship

Factors:

- **Commitment**
  - top management commitment is crucial
  - clearly identify the value of the partnership for each party

- **Clear Method of Communication**
  - two major factors that lead to the breakdown of partnerships are:
    - lack of information sharing
    - inability to resolve conflicts
Managing a Trust-Based Relationship Continued

Factors Continued:

• Performance Visibility
  – helps identify defective processes
  – makes it harder for either party to be opportunistic

• Fairness
  – most relationships involve parties with unequal power
  – fairness influences relationship strength
Managing Conflict and Dispute Resolution

Look at:

• Sources of Conflict

• Dispute Resolution Procedures
  – Litigation
  – Arbitration
  – Mediation
  – Negotiation
Sources of Conflict

Potential Sources:

• Relationship Conflicts
  – strong emotions, poor communication, negative behavior
  – stereotypes and language differences problematic with intercultural communications

• Data Conflicts
  – different interpretation of data
  – lack of information
Sources of Conflict Continued

Potential Sources Continued:

• Interest Conflicts
  – competition over substantive interest

• Structural Conflicts
  – unequal control, destructive behavior
  – physical factors that hinder cooperation
  – prominent source of conflict

• Value Conflicts
  – different ways of life, ideology, religion
Dispute Resolution Procedures

Supply chain partners should decide ahead of time how they will resolve disputes

• Four primary resolution processes
  – can be combined to form hybrid options
Litigation

- legal wrong committed
- judge and jury determine outcome
- time consuming
- potential for bad press
- costs can be excessive
- outcome usually “all or nothing”
Arbitration

- neutral third party issues a binding decision
- useful when international courts not desirable
- desirable for highly technical fields who want to avoid a lay jury in litigation
- parties can customize arbitration procedure
- courts usually enforce arbitration agreements
Mediation

– neutral third party facilitates process
– parties not required to agree to outcome
– usually voluntary
– preferred over litigation and arbitration when relationship preservation is important
– parties can customize mediation procedure
Negotiation

– positions are exchanged until the two parties can agree on a mutually beneficial settlement

– most informal procedure

– no third-party assistance

– can be inexpensive

– can be fast
Negotiation Concepts

• Leverage
  – amount of bargaining power
  – party with the most leverage loses the least walking away from the negotiation

• Position vs. Interest
  – position is a signal of willingness to accept (or pay) “won’t pay any more than $7/unit”
  – interest is the underlying reason for position
Negotiation Concepts Continued

• Negotiator’s Dilemma
  – sharing truthful information provides a higher chance of a mutually beneficial outcome
  
  – Integrative Opportunities
    • non-zero-sum negotiation opportunities
  
  – Distributive Opportunities
    • zero-sum negotiation opportunities
Negotiation Styles

Two Categories:

• Adversarial
  – zero sum approach: every benefit one party receives is a direct loss to the other party
  – tough positional bargaining tactics

• Problem-solving
  – non-zero sum approach: concessions made by each party to create value
  – discussions address underlying interests
Adversarial Negotiation Tactics

• Extreme Opening Offers
• Few and Small Concessions
• Withholding Information
• Manipulating Commitments
Extreme Opening Offers

- Anchoring
  - initial offer has powerful effect on the final agreement
  - can make a company look less credible
Few and Small Concessions

Concessionary Tactics:

• Norm of Reciprocity
  – when one party makes a concession, a psychological norm encourages the other party to do the same

• Rejection-then-Retreat
  – make an offer that you know will be rejected
  – “real” offer is subsequently made with greater likelihood of acceptance
Withholding Information

• Information Asymmetry
  – one party has access to information that the other party does not know about

• Both Parties can Withhold Information
  – prevents parties from understanding underlying interests
  – don’t know the true position of counterparty
Manipulating Commitments

• Binding the Counterparty
  – get the counterparty to commit to a principle, then use it against the counterparty later in negotiation

• Binding Yourself
  – committing yourself can be effective with adequate leverage
  – constrains your flexibility
  – may erode credibility if found untrue
Problem-Solving
Negotiation Tactics

• Listening
  – separating people from the problems
  – identify misperceptions
  – acknowledge emotional conflicts
  – “looping” technique

• Asking
  – focusing on interests rather than positions
  – can uncover hidden interests
  – ask open questions, not closed questions
Problem-Solving
Negotiation Tactics Continued

• Inventing
  – inventing options for mutual gain
  – brainstorming
  – differences more helpful than similarities

• Referencing
  – using objective criteria to evaluate the terms
  – depersonalizes the negotiation
  – can help overcome unfair counterparty tactics
Relationship Management in Practice

- Keiretsu Supplier-Partnering Model
- Partnership Agreements
- Diluting Power
Keiretsu Model

Helps turn power-based relationships into partnerships based on trust

Six Steps:

1. Understand how your suppliers work
2. Turn supplier rivalry into opportunity
3. Supervise your suppliers
Keiretsu Model Continued

Steps Continued:

4. Develop supplier capabilities
5. Share information
6. Joint improvement
Partnership Agreements

– contract that creates the partnership
– formal contract too early can create problems
– financial agreement
– buy-sell agreement
– hand shake deals:
  • “even a dog can shake hands”
Diluting Power

- decision-making power offered in exchange for resources

- beware of “tragedy of commons”
  - resources not utilized efficiently because too many people exercise simultaneous control
Review

1. Four categories of supply chain relationships: non-strategic transactions, contractual, partnerships, and alliances.

2. Relationships should be developed on basis of trust rather than exploitation. Trust-based relationships developed by assessing the value of the relationship, identifying operational roles, negotiating effective contracts, and designing effective conflict resolution procedures.
Review Continued


4. Prepare for negotiations by studying the counterparty, identify who has the most leverage, and think about underlying interests.