EXAMINING THE PARTNERSHIP MENTALITY: KEY FACTORS IN PURCHASING RELATIONSHIPS

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This study examines the relationship between a partnership mentality and the governing mechanisms that provide the operating framework for supply exchanges. A national sample of 509 National Association of Purchasing Management members revealed that governance mechanisms, along with the overall productivity of the supply relationship, account for a majority of the variance in a partnership mentality. Upon further examination, however, the governance mechanisms did not overwhelmingly differentiate JIT relationships from non-JIT relationships. Both types of supply exchanges appear to have relational aspects in their interactions. Thus, some degree of relationalism exists regardless of the chosen supply situation.

INTRODUCTION

The quest to understand the nature of close relational ties between Original Equipment Manufacturers (OEMs) and their first tier suppliers has received significant attention over the last decade by both purchasing professionals and university researchers. Indeed, the introduction of just-in-time (JIT) manufacturing systems in the early 1980s signaled the demise of adversarial behavior in many supply relationships (Frazier, Spekman, and O'Neal 1988). Today, managerial, technological, and financial benefits accrue in close buyer-supplier interactions (Ellram 1990).

A purchasing partnership is defined as "a banding together of the OEM and a first-tier supplier to gain a competitive advantage over other firms in the marketplace" (Young 1993, p. 23). A partnership can be distinguished from more traditional supply relationships by four characteristics: 1) the level of dependency of the OEM on the supplier's specialized research and development skills; 2) the effect of the partnership on the competitive position of one or both of the firms; 3) the degree of collaboration between the parties; and 4) the longevity of the relationship (Collins and Doorley 1991).

A partnership mentality involves "an inherent trust, as well as a mutual commitment and sharing" between the buyer and supplier (Ellram 1991, p. 2). While ongoing research involving this subject has filled in many pieces of the relationship puzzle, the factors that determine whether or not the buying firm perceives itself to be involved in a purchasing partnership have not been examined.

Consequently, the current research focuses on exploring this void in the literature. More specifically, the research examines the relationship between partnership mentality and the governing mechanisms that provide the framework in which OEM-supplier activities are managed. Following a brief review of literature relating to governance

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mechanisms, research objectives and methodology are presented along with the results of an empirical study involving the participation of 509 National Association of Purchasing Management members.

BACKGROUND

Within the relationship between the OEM and its supplier, there exists a series of governance mechanisms that enable the exchange parties to influence policies and decisions that affect the operational performance of the supply relationship (Macneil 1974, 1980). Some mechanisms are formal in nature. They depict contractual obligations such as the length of agreement, termination clauses, and the extent of responsibilities. Other mechanisms are implied understandings that are established "by countless official and unofficial words and actions which are no less significant for being implicit" (Osgood 1968, p. 19). If the OEM and supplier are to interact overtime, they must continue to adapt to each other's needs; thus, firms develop compatible perceptions of governance mechanisms as information is exchanged and relationships mature.

The governance mechanisms represent a number of different characteristics. For example, involvement, formalization, solidarity, role integrity, mutuality, flexibility, and power each identify an important aspect of the buyer-seller relationship (Dwyer, Schurr, and Oh 1987; Kaufmann and Dant 1992; Macneil 1974, 1980). These characteristics are briefly described below:

1. *Involvement* - the coordination of the OEM and supplier through horizontal communication activities.
2. *Formalization* - the degree to which rules or standard operating procedures are used between the OEM & supplier.
3. *Solidarity* - the extent to which the OEM and supplier make a psychological investment to develop an ongoing, trusting relationship.
4. *Role Integrity* - the degree to which the OEM and supplier view the supply relationship as more than simply a buy-sell arrangement.
5. *Mutuality* - the willingness of the OEM and supplier to share both the good and bad aspects of the relationship in an equitable manner.
6. *Flexibility* - the willingness of the OEM and supplier to adjust expectations in light of changing conditions.
7. *Power* - the extent to which OEM and supplier attempt to control the behavior of the other.

The extent to which a partnership mentality exists between the OEM and supplier depends on the degree to which each characteristic is discrete or relational in nature. A traditional supply relationship is an example of a discrete buyer-seller interaction. This interaction is best characterized by the competitive bidding process that exists in many supply situations. There is seldom a commitment between the OEM and supplier to an ongoing relationship beyond the contractual period.

In contrast, a relational exchange is one that is viewed as an ongoing process in which there is a high degree of interaction, an often informal understanding, a strong commitment to maintain the relationship, a complex web of expectations, a high willingness to share all outcomes, a great deal of flexibility, and little use of power tactics between the parties. This description is the essence of the partnership mentality.

The exchange parties may approach a supply relationship with varying relational motivations. Often, a firm can achieve its operational objectives through an independent course of action in that no joint activities are shared between the buyer and seller. In other instances, a firm is looking to ensure "a smooth flow of raw materials, components, or services into the manufacturing operation" by single sourcing with a supplier (Webster 1992, p. 7). More frequently, in today's competitive environment, OEMs are looking to suppliers for complementary skills in technology development, product design, tool development, component testing, value analysis, and/or long range planning (Heide and John 1990).

As the level of collaboration intensifies, the organizational boundaries between OEMs and suppliers fade, and true partnerships begin to emerge.

In the realm of industrial purchasing, the requirements of JIT production served as an initial stimulus for the partnership movement. JIT purchasing has been described as a "marriage" between the OEM and supplier (Frazier, Spekman, and O'Neal 1988). Because JIT systems require such activities as more frequent deliveries of smaller lot sizes, reduction in the supplier base, and greater interaction among functional departments, OEMs and suppliers strengthened their relational bonds (Gilbert, Young, and O'Neal 1994).

RESEARCH OBJECTIVES AND METHODOLOGY

An empirical study was undertaken to investigate the relationship between partnership mentality and the governance mechanisms. Partnership elements were assessed in two stages: (1) by examining the governance items that are related to partnership mentality, and (2) by assessing these items in a research context known to possess a partnering atmosphere.

More specifically, the first research objective addresses the following question: in general, which governance items are most highly related to, or predictive of, a partnership mentality between an OEM and supplier? Based on our review of the literature, we would expect many of the characteristics (e.g., involvement, solidarity, flexibility) of relational exchange to be present in OEM-supplier interactions.

The second research objective seeks to confirm the findings of the first question: will JIT relationships show greater evidence of partnering when compared to more traditional supply relationships? Since the literature does suggest that JIT exchanges are partnerships, we expect that the governance items indicative of partnering will have greater intensity in JIT relationships when compared to more traditional supply relationships.

A final and tertiary research objective examines the relationship between the productivity of the supply relationship and partnership mentality. The research question is: does productivity have a significant effect on an OEM's perception that a partnership exists with its supplier? Again, the literature lends support that such a relationship exists.

A survey was conducted to determine the governance items that were indicative of OEM-supplier partnerships. Data collection was accomplished by mail questionnaire in a national sampling effort. The sample was drawn from a membership list obtained from the National Association of Purchasing Management (NAPM). OEMs in three SIC classifications [nonelectrical machinery (35), electrical and electrical machinery (36), and transportation equipment (37)] formed the sample. The key informant was a purchasing professional that had both an interface to the external environment as well as knowledge of strategic interfaces with top management and other functional departments within the firm (Heinritz et al. 1991).

A personal letter and questionnaire were mailed to the 2,950 NAPM members in the sample frame. The mailing consisted of two waves. The first wave resulted in 244 usable responses. A follow-up mailing, approximately four weeks later, resulted in another 265 usable surveys, for a total of 509, a response rate of 17.3% A respondent profile is presented in Table 1.

Survey participants were asked to select a focal supply source and report their perceptions concerning a variety of governance characteristics that existed between their firms and the exchange partner. The respondents also indicated the degree to which they perceived their firms and the focal supplier to be "partners" in the industry. In addition, the respondents were asked to report if the supplier was a JIT supply source. Finally, the participants indicated the extent to which the relationship was productive and then provided demographic information about their respective firms.

TABLE 1

NAPM Sample Demographics

	Mean	Median
Annual Sales Revenue (in millions of dollars)	684	73
Number of Employees	1,804	320
Age of Organization (in years)	42.13	34.00
Length of Supply Relationship (in years)	7.81	5.00

RESULTS AND DISCUSSION

The first objective is to describe the strength of the relationship between specific governance items and a partnership mentality. The results of the multiple regression, with perceived partnership as the dependent variable and fifteen governance items along with the productivity of the exchange as independent variables, are shown in Table 2.

The ten governance items that explain variation in a partnership mentality encompass such areas as: joint planning committees, no termination dates, long-term view, loyalty, commitment, expectations, cooperation, fair share of rewards, expense absorption (by the supplier), and flexibility beyond the original agreement. Not surprisingly, the productivity of the exchange relationship also impacts the perceived partnership mentality.

Governance items which did not explain variation in partnership perception included: relaxation of standard operating procedures, owing favors, absorbing costs that could be shared, an equal sharing of burdens, and restraint in the use of power. Thus, these items did not affect the perception of the relationship as a partnership.

A perceptual pattern appears to emerge between the ten governance items that are predictive of a partnership mentality and the five items not indicative of partnering. Buyers may view the later set of characteristics as risky and possibly punitive in nature if not reciprocated by the supplier. On the other hand, the ten predictors virtually guarantee positive outcomes for the OEM.

To examine the second research objective, the confirmation of characteristics indicative of a partnership mentality in a setting conducive to such relationships, a multivariate analysis of variance was conducted. Respondents were subsequently divided into two categories: (1) OEMs which discussed a JIT supply source, and (2) OEMs which discussed more traditional supply relationships. The eleven variables previously identified as significantly predicting a partnership mentality were included in the analysis. The results are presented in Table 3.

As expected, JIT supply relationships were reported to be significantly more productive than non-JIT relationships. However, only five of the ten governance items were significantly different across the two supply settings. JIT supply relationships were significantly more relational than non-JIT relationships for the following characteristics: joint planning committees, long-term view, commitment, expectations, and expense absorption (by the supplier). The two types of relationships did not differ on the following: no termination dates, loyalty, cooperation, fair share of rewards, and flexibility beyond the original agreement.

The lack of significant differences across these last five characteristics may be explained by considering that such factors are often basic underpinnings in many ongoing supply relationship rather than potential partnership building blocks. The results indicate that exchanges with greater levels of collaboration and perceived longevity are more likely considered partnerships than supply relationships that do not exhibit these attributes.

TABLE 2

Multiple Regression Results: Influence of Governance Items on Perceived Partnership Mentality

Dependent Variable: Perceived Partnership Mentality	Mean	Beta	t-value	p-value
GOVERNANCE ITEMS				
1. There are many joint planning committees between my firm and this supplier	2.57	.11	3.41	.00[a]
2. Standard operating procedures (e.g., rules, policies, etc.) are required in this relationship (**reverse coded**)	3.11	-.00	- .02	.99
3. The written agreements in this relationship rely on termination dates (**reverse coded**)	3.67	.07	2.13	.03[a]
4. My firm expects this relationship to last a long time	4.33	.17	4.11	.00[a]
5. My firm is not at all loyal to this supplier (**reverse coded**)	4.33	.07	1.88	.06[b]
6. My firm is committed to the preservation of a relationship with this supplier	4.30	.16	3.63	.00[a]
7. My firm doesn't mind owing this supplier a favor	3.15	.01	.15	.88
8. There are many expectations between us which go beyond the mere buying and selling of products	4.28	.16	4.34	.00[a]
9. My firm is conscientious in maintaining a cooperative relationship with this supplier	4.20	.13	3.13	.00[a]
10. This supplier gets at least a fair share of the rewards & cost savings from this relationship	3.60	.06	1.88	.06[b]
11. During some periods, my firm absorbs costs which could be shared with this supplier	3.36	.05	1.31	.19
12. Sometimes, this supplier absorbs some expenses that my firm has caused	3.56	.10	2.97	.00[a]
13. The burdens of this relationship are usually shifted to only one party (**reverse coded**)	3.96	-.05	-1.49	.14
14. When some unexpected situation arises, my firm & this supplier would rather work out a new deal than hold each other to the original terms	3.50	.08	2.27	.02[a]
15. It is expected that each party should use what power they have over the other party (**reverse coded**)	4.37	.06	1.63	.11
PRODUCTIVITY OF SUPPLY RELATIONSHIP				
16. To what extent has the relationship between your firm and this supplier been productive	4.21	.11	3.17	.00[a]

[a] Statistically significant at the .05 level.
[b] Statistically significant at the .10 level.
All means on a 5-point scale from 1 = strongly disagree to 5 = strongly agree, except for item #16: 1 = minimum extent to 5 = maximum extent.
Adjusted R Square = .53

TABLE 3

Multivariate Analysis of Variance Results: Partnership Characteristics

Categorical Variables: JIT Suppliers Vs. Non-JIT Suppliers	**JIT** Suppliers (n=305) Mean	**Non-JIT** Suppliers (n=204) Mean	p-value
GOVERNANCE ITEMS			
1. There are many joint planning committees between my firm and this supplier	2.76	2.28	.00[a]
2. The written agreements in this relationship rely on termination dates **(reverse coded)**	3.69	3.62	.48
3. My firm expects this relationship to last a long time	4.43	4.18	.00[a]
4. My firm is not at all loyal to this supplier **(reverse coded)**	4.38	4.25	.14
5. My firm is committed to the preservation of a relationship with this supplier	4.36	4.20	.04[a]
6. There are many expectations between us which go beyond the mere buying and selling of products	4.36	4.15	.00[a]
7. My firm is conscientious in maintaining a cooperative relationship with this supplier	4.21	4.17	.58
8. This supplier gets at least a fair share of the rewards & cost savings from this relationship	3.60	3.60	.89
9. Sometimes, this supplier absorbs some expenses that my firm has caused	3.66	3.41	.00[a]
10. When some unexpected situation arises, my firm & this supplier would rather work out a new deal than hold each other to the original terms	3.55	3.43	.18
PRODUCTIVITY OF SUPPLY RELATIONSHIP			
11. To what extent has the relationship between your firm and this supplier been productive	4.28	4.09	.00[a]

[a] Statistically significant at the .05 level.
All means on a 5-point scale from 1 = strongly disagree to 5 = strongly agree, except for item #11: 1 = minimum extent to 5 = maximum extent.
Multivariate Test of Significance = 3.79, p = .00

CONCLUSIONS

Since the goal of many firms in business today is to strengthen the ties with suppliers as a means of increasing the effectiveness of channel operations, understanding these "partnerships" is a critical component of improving the process. A partnership mentality may be one critical component of JIT supply relationships and a key aspect of increasing the relationalism of the exchange process in any type of buyer-seller interaction. During the early phases of relationship development, both OEMs and suppliers should consider joint planning committees, flexible outlooks, a long-term view of profits that may require expense absorption in the short-term, and the loyalty/commitment that are part of any business which achieves success in the long run.

As the higher expectations of a JIT supply relationship develop, the joint planning committees, long-term outlook, commitment and expense absorption begin to differentiate these growing partnerships from traditional arrangements. Even traditional agreements between OEMs and suppliers are now exhibiting relational overtones in such areas as cooperation, loyalty, reworking agreements, and long-term views of the relationship. As these factors no longer differentiate JIT-supply relationships from others, the climate of business does indeed seem to be changing.

Future research must continue to examine the perceptions of partnerships through the eyes of other participants such as the first-tier supplier. Studies which profile the similarities and differences in relationships across industries, target markets, or types of firms are needed as well as studies which describe the formation and progression of relationships between matched pairs of OEMs and suppliers (Ellram 1995). Documenting the basic attributes that appear to be evolving in most exchange relationships and the attributes that seem to differentiate varying arrangements will provide interesting work as adaptations continue to occur.

The opinions of these NAPM members provide initial direction and insight for other suppliers and buyers. A supplier that proactively attempts to address the cost concerns of the OEM may begin a process of establishing a relationship that will continue to grow as profits accrue to both firms in the long term. "Partnership" is one component of a healthy relationship that is changing the face of business and the expectations of those who strive to improve its climate.

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