THE IMPORTANCE OF PARTNERSHIPS IN SUPPLY CHAINS

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Abstract: The article deals with an overview of various theories and studies examining the concepts of partnerships, relationships and strategic alliances. We present various perspectives and theories dealing with these concepts, in connection and interdependence with the supply chain and the supply chain management. In conclusion, we try to establish a model to become the basis for our further study of strategic alliances and their strengths.

Keywords: Supply chains, supply chain management, relationships, partnerships, strategic alliances

1. INTRODUCTION

The article deals with theories related to supply chain management, strategic alliances, and partnerships. We will also touch upon the influence of the power of strategic alliances.

Supply chain management and other similar terms became interesting in the early 1980s. At that time, the very concept of supply chain management was not yet clearly defined and understood (Croom, Romano & Giannakis, 2000). The definition itself included input processes and a network of management that ensured the flow of raw materials and information between organizations and end-users (Vouk, 2005). It was defined as an integration of strategic purchasing, suppliers, the relationship between seller and customer, supply management, strategic partnerships, supply chain synergy, networking, supply chain value, lean supply chain approach, and supply chain value (Croom, Romano & Giannakis, 2000).

Many companies note that partnerships with suppliers, vendors, etc. are means of establishing a competitive advantage (Vlosky & Wilson, 1997). According to D. J. Lee (1998), strategic alliances are defined as a relatively durable co-operation agreement that includes flows and links that use resources and/or administrative structures

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from autonomous organizations to achieve individual goals related to the corporate borrowing of each sponsoring company.

The article is composed of three parts. In the first part, the theoretical basics of supply chain management is presented. Theoretical principles of the study of strategic partnerships and alliances follow. In the latter part, we will present guidelines which, in our opinion, should be further studied and explored.

2. SUPPLY CHAINS AND SUPPLY CHAIN MANAGEMENT

When discussing this topic, we begin with various theories describing the management of supply chains as a set of interlaced and interconnected activities where stakeholders within the supply chain have the goal of making such choices that will be most favorable and profitable for them (Ferrara, Kademi, Salimi & Sharifi, 2017).

The concept of supply chain management began to develop in the early 1980s. The definition itself included input processes and a network of management that ensures the flow of raw materials and information between organizations and end-users.

In order to better describe supply chain management, it is necessary to define the basis of the supply chain that Croock & Combs (2007) define as a group of organizations that take care of flow and transformation of material. The supply chain covers activities related to the flow and material processing from the beginning to the end user, with the flow of information traveling in both directions (Tamás, Józsa & Macková, 2014). The supply chain is described similarly by La Londe and Masters 1994, p. 38. They define it as a set of companies/organizations that handle the flow of material. Independent companies are involved in production where they take care of material transformation involving suppliers, manufacturers, transport companies, wholesalers, retailers and end-users. Christopher (1992) defines the supply chain as a network of organizations involved in various processes and activities that give the product a value that satisfies the final consumer. From this, it can be assumed that the structure of the supply chain contains four sets of stakeholders: suppliers, manufacturers, distributors, wholesalers and retailers (Ferrara, Kademi, Salimi & Sharifi, 2017).

To summarize the above definitions, we come up with a similar definition as described by Mentzer, DeWitt, Keebler, Min, Nix, Smith & Zacharia (2001). The supply chain is a collection of three or more participants who are directly or indirectly involved in the movement of goods, services, financial flows and information flow with the aim of satisfying the end users.

Tan et al (1998) described the supply chain management as a relationship between the supplier of raw material and the end consumer. The supply chain management focuses on how companies choose their suppliers, technology, and other processes to be competitive. The philosophy of supply chain management focuses on a traditional set of activities that seek to link partnerships to achieve goals, optimization, and efficiency.

Kopezak (1997) described supply chain management as a set of entities, including suppliers, logistic services, manufacturers, distributors and traders along the supply chain between which the material and information flow.

Lee and Ng (1997) described the supply chain management as a network where everything begins with the supplier and ends with a consumer of a service or product.
Supply chain management is, therefore, the integration of production operations, purchasing of goods, transport and physical distribution in the supply chain (Zigiaris, 2000). It also covers activities that seek to improve partnerships in the supply chain by seeking to achieve the competitive advantages of organizations (Tamás, Józsa & Macková, 2014). It is a process that encompasses the planning and implementation of activities within the supply chain with an emphasis on the modeling and strategy of suppliers and distributors.

Supply chain management has proven to be an important approach in reducing costs, improving quality and innovation (Mabert and Venkataramanan, 1998), where stakeholders must be willing to participate in social, political and cultural fields (Long, Moss & Radic, 2012).

3. COOPERATION IN SUPPLY CHAINS AND SOCIAL RESPONSIBILITY

Business cooperation is a framework in which mutual cooperation and the flow of information between organizations run (Blankenburg Holm, Eriksson & Johnson, 1996). The development of the importance of cooperation began as a social change between two organizations, where collective players were at the forefront. According to Fiol and Lyles (1985), through the development of cooperation and networking, the organizations established competencies and behaviors among themselves and tried to further develop those activities that enabled them to achieve the set goal. Similar to Blankenburg Holm, Eriksson & Johnson (1996), Daugherty (2011) also describes collaboration as a link between two or more organizations sharing information, responsibility, joint planning and execution of tasks.

It means cooperation that enables one to achieve a goal, profit, and success. By sharing information and collaborating with each other, they increase their efficiency, which is one of the advantages of such business cooperation.

Organizations or participants in the supply chain make decisions based on their own experiences and desires to achieve their goals. In doing so, they must take into account social responsibility in accordance with national regulations and policies, while also knowing foreign laws and other participants in the supply chain (Ferrara, Kademi, Salimi & Sharifi, 2017).

In the case of cooperation with organizations from other countries, we are talking about international cooperation, which (Blankenburg Holm, Eriksson & Johnson, 1996) describe as the exchange of relationship between the suppliers of one organization in one country and the buyer in the other, where good communication, trust, and cooperation are fundamental. In this case, we are not just talking about sales and purchases, but about international business cooperation and social responsibility.

The social responsibility of participants in the supply chain is an effective tool for planning, coordination, procurement, production, distribution and marketing or sales (Ferrara, Kademi, Salimi & Sharifi, 2017). The theory of social responsibility distinguishes between positive and negative relationships, whereby positive cooperation means exchanging and supporting another organization, while negative cooperation is when the exchange of information is difficult, and where one side aggravates the relationship. Blankenburg Holm, Eriksson & Johnson (1996) believe that maintaining and strengthening the relationship adds value to the business partnership and that this type of relationship has a great impact on cooperation.
4. THE IMPORTANCE OF PARTNERSHIPS IN A SUPPLY CHAIN

The development of partnerships emerged between 1980 and 1990 when organizations looked for faster, cheaper and better logistics services (Stank and Daugherty, 1997). A clear result of the development of partnerships was mainly with the producers since they began to focus on competition and hire subcontractors (Daugherty, 2011). Turnbull, Ford & Cunningham (1996) consider that the development of the relationship supplier-buyer is an investment, in addition to the adaptation of various activities that create a social and structured commitment of organizations. This leads to commitment and loyalty, which is the basis for a long-term partnership, difficult to break. Turnbull, Ford & Cunningham (1996) see the development of partnerships as a binding process leading to a mutual commitment to the relationship. The knowledge that one or the other organization possesses can have an important influence on the development and survival of partnerships. Hakansson & Ford (2002) believe that partner organizations can achieve some benefits and reduce costs more efficiently if they invest in the development of partnerships. Collaboration and partnerships, therefore, allow organizations to strive for integration instead of competing with one another, thereby becoming stronger, more competitive and, in a way, independent of others (Wong, 2001).

The partnership can be defined as the relationship between two or more organizations, where there is a certain obligation to stakeholders in the supply chain, and where information sharing and trust are crucial. Vlosky & Wilson (1997) believe that companies need to establish partnerships with other organizations in order to ensure competitiveness. Trust, commitment, and dependence are common points of partnerships (Daugherty, 2011). Similarly, Ryals & Humphries (2007) describe relationships within the supply chain as a long-standing business relationship, with a limited number of suppliers, who understand the great importance of trust. Relations consist of prescribed rules and norms of behavior. They provide an atmosphere in which individual activities take place, including negotiations, payments, deliveries and social contacts (Turnbull, Ford & Cunningham, 1996). Partnership relations can be interpreted in several ways (resources, sharing, communication, flexibility, etc.), where long-term relationships represent good cooperation, durability, and connectivity between organizations (Vlosky & Wilson, 1997).

Wong (1999) defines partnership as the creation of the relationship of integrated alliances between the two entities - suppliers and customers. He specified that there are two types of partnerships: internal and external partnerships. An internal partnership is a partnership within one organization, between departments and colleagues. The external partnership is developed along the entire supply chain (Wong, 1999). Forman & Jørgensen (2004) share partnerships on the basis of three supply chain management strategies: a weak strategy (where the company does not set demands to suppliers but follows companies that already meet these requirements); asymmetric partnership (where companies seek/want long-term partnerships with suppliers). The goal of such a partnership is cooperation and dialogue. Vlosky & Wilson (1997) divide partnerships into horizontal and vertical, where the horizontal partnership represents the relationship between suppliers and the vertical, the relationship between the producer and the distributor. Forman & Jørgensen
(2004) also state that supply chain management strategies can also be different because they depend on the environment, relationships, business practices and competencies, as well as on the relationship between the supplier and the distributor.

Daugherty (2011) defined that the partnership consists of five dimensions - prevalence, operational information, exchange, joint control, profit spreading, and planning. Vijayasarathy (2010) thinks that the partnership's task is to share and develop information, achieve common goals, reduce costs and reduce the likelihood of a bullwhip effect (Vijayasarathy, 2010). The bullwhip effect can be defined as a disparity between supply and demand. This causes an imbalance and additional operating costs. Negative consequences of the bullwhip effect are high costs, dissatisfaction, incorrect production, large stocks, delivery delays, and unsatisfactory capacities. The same effect is defined similarly by Heydari, Kazemzadeh & Chaharsooghi (2009), who claim that with the bullwhip effect we increase the costs of the supply chain and reduce the value to the buyer. The costs are thus incurred along the entire supply chain - costs of production, storage, transport and labor costs.

Many companies note that partnerships with suppliers, vendors, etc. are means of establishing a competitive advantage (Vlosky & Wilson, 1997). Also, by closely interacting with its suppliers, sellers and other stakeholders in the supply chain, organizations can strategically compete and manage the structure of costs (Ferrer, Santa, Hyland & Bretherton, 2010). By the development of partnerships, we can plan and develop strategies better, predict and anticipate production, organize on-time delivery, reduce costs along the supply chain, maintain safe stocks and ensure that the material is turned in good time. By doing so, we achieve competitiveness, flexibility, profitability, better productivity and market flexibility (Vijayasarathy, 2010). Similarly, Moore (1998) also thinks that good and stable partnerships offer greater profitability, competitive power, and efficiency. Many companies note that partnerships with suppliers, vendors, etc. are means of establishing a competitive advantage (Vlosky & Wilson, 1997).

Similarly, Wong (1999) argues that the partnership enables the flow of information, knowledge transfer among participants, facilitates communication and efficiency, simplifies the exchange of materials or services, offers assistance and help. We can discuss ideas and raise competitiveness. So, partnerships allow open discussion, even in case of problems, as organizations are interconnected and have a common goal - profitability. Such partnerships are likely to resolve conflicts, meet their mutual demands, manage costs, deliveries and other activities within the supply chain (Wong, 1999). Good partnerships thus depend on the organizational skills of management, investment, development, and resource sharing (Turnbull, Ford & Cunningham, 1996). However, close partnerships are not always the solution. Organizations sometimes do not want close partnerships with other stakeholders. There are different organizations in the market with different objectives and requirements and other organizations are simply not able to meet their demands (Daugherty, 2011). The more we support the combined involvement of organizations and the more we focus on partnerships, coordinating activities with the aim of reducing costs and increasing profits gets easier (Blankenburg Holm, Eriksson & Johnson, 1996). Partnerships with well-defined expected returns and costs are expected to be more efficient and profitable (Moore, 1998).
5. THE ROLE OF STRATEGIC PARTNERS AND THEIR SELECTION

Strategic supply chains are a potential source of competitive advantage for businesses. The ability of the strategic supply chain is to promote cultural competitiveness or joint enterprise and learning, which is designed to fill market gaps. By following such key goals, a strategic supply chain can significantly develop its competitive advantage (Ireland & Webb, 2006). The development of strategic partnerships is thus initiated on the basis of dialogues between two or more organizations which strive for long-term business cooperation. Organizations in the supply chain are mutually dependent and therefore strive for mutual benefits within the supply chain (Munson, Rosenblatt & Rosenblatt, 1999).

Strategic alliances occur in various forms and structures, such as joint ventures, minority investors' associations, joint research and development, joint production, co-marketing, licensing, long-term supply contracts, pricing, etc. (Das & Teng, 2001). Strategic partnerships can be defined as a fast and flexible way to access the necessary resources that skillfully work in another organization. Thus, strategic partnerships have become an important tool for achieving a sustainable competitive environment, which has led to an extraordinary increase in alliances over the last decade (Dyer, Kale & Singh, 2001).

Gulati (1998) defines strategic partnerships as a voluntary agreement between two or more organizations, which includes exchange, sharing and engaging in the development of products, technologies or services. A strategic alliance can be described as a structured form of an inter-organizational arrangement involving the exchange of customer relations without the need to create a new entity (Ferrer, Santa, Hyland & Bretherton, 2010). Daugherty (2011) describes the strategic alliance as a permanent long-term partnership or relationship that achieves strategic goals of raising the value and profitability of the organization. Thus, a strategic partnership represents a commitment, an opinion, and loyalty to the common goals of organizations. By concluding strategic partnerships, the organization saves time, as it is not necessary to re-negotiate prices, delivery times, quality, etc. By doing so, organizations gain time, reduce costs and conclude long-term partnerships (Nishi & Grossmann, 2015). Forman & Jørgensen (2004) argue that strategic partnership focuses on voluntary arrangements involving the exchange or mutual sharing of goods and services. It is important that the supplier and stakeholder can complement/increase capacity. The alliance presumes a long-term relationship whereby each side possesses resources and skills that seek to improve the competitive position of each participant (Ferrer, Santa, Hyland & Bretherton, 2010).

Commitment and trust are the keys to a successful alliance, as this strengthens the marketing efforts while parties strive to invest in maintaining relationships. In other words, companies prefer to resort to long-standing, trusted business partners who know that they do not pose a great risk. When talking about strategic partnerships, companies do not opt for short-term casual co-operation but for a long-term partnership in which trust and loyalty are of primary importance (Morgan & Hunt, 1994). Manufacturers conclude strategic alliances with suppliers in order to improve their efficiency, organization, competitiveness, reduce operating costs and, above all, increase their profits (Nishi & Grossmann, 2015). Long-term strategic alliances provide the lowest price, good quality, and the
supply chain management capability. This is particularly evident in larger organizations, where material and information flows are even greater. For smaller companies, short-term partnerships are concluded, even if they cannot be marked as strategic (Forman & Jørgensen, 2004).

Understanding of relational factors, such as power, interdependence and trust, and their impact on business arrangements have gained a considerable amount of academic interest and is of great importance for managers working in inter-organizational relationships (Ferrer, Santa, Hyland & Bretherton, 2010).

The benefit of alliances is certainly the sharing of information, application of specifications and rules that allow organizations to choose the right partners (Daugherty, 2011). Similarly, Ireland & Webb (2006) see the benefits of strategic connections in the synchronization of requirements, supply and innovation processes that enable optimization of supplies, speed, and frequency of supplies, satisfying quantities, and quality. With long-term strategic partnerships, we can achieve reliability, creativity, stability and good information flow (Ryals & Humphries, 2007). Dyer, Kale & Singh (2001) consider that organizations having strategic partnerships are more likely to compete in the open market and are more successful in those efforts. They can solve problems more easily, they possess deeper knowledge, boast good management, and have more experience. Most companies do not take into account the sustainable competitive advantage that can be created through long-term relationships with their suppliers. For example, customers who have a long-term alliance are more likely to achieve competitiveness, shorter delivery times and up-to-date information on the best-selling products/services, competitive activities, best prices and market monitoring. On the other hand, sellers with long-term partnerships also achieve competitive advantages by dominating information on the best-selling products and competing activities (Ganesan, 1994). The advantages of strategic partnerships or connections are evident in the establishment of a strategic network that enables organizations to access information, provide technical support, reduce costs, develop technologies and anticipate market needs. All this is based on knowledge, experience, and organization of strategic partnerships (Gulati, Nohria & Zaheer, 2000). Turnbull, Ford & Cunningham (1996) identified five key strengths of strategic alliances: technical innovation, availability and security of supply, lower benchmark prices, production adjustments and full compliance with the supplier. In strategic integration, we also encountered two primary risks - relational risk and performance risk. Relational risk can be defined as the probability and consequences of cooperation not satisfying our expectations. The success risk is the fear that our partnership will not reach goals and satisfy our agreements within the supply chain (Das & Teng, 2001). One of the reasons that the strategic alliance fails is primarily that one or the other organization does not achieve a common goal due to various causes (incapacity, different objectives, etc.) (Dyer, Kale & Singh, 2001). The strategic alliance consists of long-term cooperation between the buyer and the seller. A group of one, two or more organizations opts for mutual cooperation, trying to achieve a common goal (Daugherty, 2011). Strategic partnerships are not focused on business but on exploiting new business opportunities and seeking benefits to facilitate co-operation.

According to Dyer, Kale & Singh (2001), when entering into a strategic partnership, we need to find such partners with
whom we can successfully and effectively cooperate. They also consider that the strategic alliance has two important functions: it has the organizational legitimacy to obtain and demand the resources needed to support the alliance in the organization. If certain organizations are not responding, we can quickly solve the problem through the hierarchical scale of the organization in which we include the relevant managerial staff, thus reaching an agreement. In the case of a long strategic partnership, we can access data and build an information network that enables us to review our operations (prices, delivery times, complaints, etc.). Such network helps us develop trust among organizations.

Each strategic partnership also has its own strengths. Power can be defined as a multi-dimensional construct that includes an influence that can be used to promote the desired actions of the opposite side (Ireland & Webb, 2006).

The strength that organizations obtain by concluding strategic partnerships is reflected in the cooperation between the buyer and the supplier, one of which determines the requirements and takes decisions (Forman & Jørgensen, 2004). A strong strategic partner in the supply chain has control over the financial flow, represents the center of the supply chain, has the power to reduce critical issues and makes other organizations subordinate (Munson, Rosenblatt & Rosenblatt, 1999).

Power also has its imperfections: power differences between partners create an environment for stronger companies to act opportunistically, using their power to achieve a certain goal (Ireland & Webb, 2006). The larger the company, the easier it is to dictate their demands, expectations, price, quality, and discount (Munson, Rosenblatt & Rosenblatt, 1999). According to Ferrer, Santa, Hyland & Bretherton (2010), power and dependence are relative.

6. GUIDELINES FOR FUTURE RESEARCH

Affiliation to a relationship and cooperation is based on the theory of social exchange (supplier-buyer relationship), since in long-term partnerships, organizations develop through results which they themselves would not be able to achieve (Lambe et al., 2001). In order to achieve this, good communication must be ensured. That is extremely important at the strategic and operational level in cooperation between different partners (Bowersox et al., 1989). In addition to good communication and trust, it is also important to realize that a long lasting relationship with the other party is important and that a lot of efforts and resources need to be invested since it will ensure sustainability and achieve common goals (Morgan & Hunt, 1994).

From the above-presented theoretical bases and research that have been carried out so far, we have developed a model that will be used as the basis for our further research. We believe that it would be sensible to consider the choice of strategic partners, what power and influence partnerships have and how this affects the dependence of partnerships on the supply chain. According to Iršič (2004), partnerships based on a long, deep and active relationship with the supplier determine the bargaining power of partners. Efficient and successful formulation of strategic partnerships requires a deep understanding of these relationships, the necessary conditions for their development, their strengths and weaknesses and the effects of the activities involved.

Based on the research carried out by Iršič (2004), it was established that the
most attractive are those suppliers who guarantee good delivery time, have adequate quality, offer a good price, etc. Thus, it would be necessary to check the criteria upon which we conclude partnerships (company standardization, business position, business, customization, support, sensibility, benefits for the final success of the organization, etc.). From a different point of view, it is also essential to explore the strong inter-dependence of partnerships in the supply chain and how these partnerships influence the supply chain. The proposed research would focus on suppliers on one hand (choice and power) and, on the other hand, purchasing, which is a link between the supplier and the production/end consumer.

**Figure 1:** Graphic model, the basis for further research

The model is the basis for our further exploration. The research would be conducted on the basis of a survey questionnaire aimed at suppliers of the selected company. The questionnaire would cover questions related to the size of the company, financial status, sustainability, cooperation with the selected company, what standards and certifications they have obtained, what role in the supply chain they play with the selected company, and whether there is a possibility of cooperation in terms of the development of the selected company.

The questions would be weighting differently, given their importance. Given the research of the impact of strategic partnerships in the supply chain, issues related to sustainability, development, standards and certifications gained and their importance in the supply chain would be given greater weight.

7. RESEARCH LIMITATIONS

In the process of researching and constructing the presented model, we see limitations especially in the conduct of the survey. Since we need a sufficient numbers of survey questionnaires, we need to present the research topic to suppliers in such a way that it will be of interest to them. It also poses a problem of confidentiality of information, as we believe that some of the questions in the survey questionnaire might be unacceptable to the respondents. As we explore the impact of strategic partnerships on the supply chain, we should weight the issues appropriately to get a clear and realistic picture of the research. As already noted in the research by Iršič (2004), issues related to quality, price and delivery time would be more difficult than other criteria. Standards, certifications and company performance would also be important data. In doing so, we need to determine how to weight the criteria so that the analysis is realistic and that it is actually possible to see how all these criteria affect the supply chain or one part of the supply chain.

8. CONCLUSION

According to Murphy & Wood (2011), co-operation can be defined as a cooperative process of creating alliances. It
represents the relationship between a supplier and an organization, increasing the overall business for both parties. We can say that organizations are constantly faced with the development and implementation of new strategies with their customers and suppliers.

The more successful a buyer-seller relationship is, the more potential to lower costs, develop the product, reduce dependency, increase research, etc. ... (Joseph P. Cannon and William D. Perreault Jr., 1999). It is also necessary to know the market and participants (in our case, suppliers) well.

Choosing the right supplier is a strategic decision of the organization since it is of great importance to have a reliable supplier or service provider. It represents the basic responsibility and the decision on the basis of which we will build a relationship and a business. A structured, simple and effective way to choose a business partner leads to a more solid supply chain, as it captures the quantitative and qualitative indicators on which we are choosing partnerships (Routroy, 2008).

Our business relationship and the functioning of the entire supply chain depend on this choice. In doing so, one must be aware of the competitive power of cooperation (Christopher, 2004). It has been established that the success or failure of the alliance in the supply chain is directly proportional to commitment and trust between the parties (Ferrer, Santa, Hyland & Bretherton, 2010).

On the basis of the above mentioned, we consider that the topic of strategic partnerships and the choice of these are a relevant topic for further study. It would also be sensible to consider the strength of strategic partnerships and their impact on the supply chain.

REFERENCES


**ZNAČAJ PARTNERSTAVA U LANCIMA OPSKRBE**

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**Ključne riječi:** lanci opskrbe, upravljanje lancem opskrbe, odnosi, partnerstva, strateški savezi.