

Logistics Research Program 2008



In the following report, Maree Storer, Project Manager of the Collaborative and Sponsoring Partner Consortium (CSPC) undertaking the LAA's 2008 Logistics Research Program, presents initial findings.

Competence in Supply Chain Management – Coopetition, Effective Partnerships and PL/4PL
Recent Norwegian research findings from a nation-wide empirical study into competence in supply chain management reported that whilst companies generally consider supply chain management to be strategically important, a lack of competence and poor internal knowledge about logistics costs were highlighted as the main barriers to ensuring these companies' maximised value from supply chain relationships.

Paradoxically, the same companies expressed little intention to address this through developing the necessary levels of competence or improving their systems for managing competence development in the supply chain management regime. This is also supported by an apparent lack of professional status and professionalism required and afforded to supply chain managers. These findings are not isolated to a particular country, but strike at the heart of improving supply chain outputs and maximising returns for industry supply chains globally.

Supply chain management is no longer just a transactional based support function of a company's strategic direction. It is the spearhead of competitive advantage and often involves complex and sensitive planning, negotiation and relationship building to ensure the supply chain is a strategic weapon in the marketplace, not the individual firm. Firms no longer compete in isolation but have an intimate relationship with their supply chains, through which competitive advantages are derived. This goes to the heart of company decision-making into developing and maintaining effective supply chain relationships.

Effective supply chain partnerships are dependent upon the competence levels within the partnering firms to recognise and evolve the benefits that they might bring. Commonly, firms are seen to engage in 'arms length' transactions with little regard for each other's needs, with the relationship built on the threat of opportunistic behaviour by one or the other, and supply chain relationships seen as easily replaced. With the threat of finite global resources, rising costs and production driven by consumer demand, new market dynamics are creating complex and often highly dynamic market conditions for supply chain participant firms. The demand for constant product, system and process innovation requires firms to continually innovate, either radically or incrementally and this has direct impacts onto supply chain development and supply chain relationship management. Competence in supply chain management has never been more important and understanding the various types and natures of supply chain relationships and being able to maximise these in a contextual and situational basis can be the difference in the level of competitive advantage gained in today's marketplace.

Why is competence so important to this topic? One firm can outperform another as a direct result of the internal collective competence it possesses. Inter-organizational competence in supply chains is made up by developing intra-firm competence and from pre-existing resources or new resources from external sources described as inter-firm competence.

Four key types of competence exist:

- Purchased competence which refers to a product or service provided by the supplier of a non-strategic nature.
- Transferred competence – the buyer transfers resources from expertise which complements that of the supplier.
- Supplied competence – injected competence from the supplier to the buyer's firm.
- Cross competence – both buyer and supplier contribute to the relationship.

When it comes to partnerships and what makes them effective, major characteristics might include: open and honest communication; trustworthiness and honesty; responsiveness to internal and external market shocks; high level strategic skills; marketing and promotion; innovation and cost control. A willingness to be flexible, adaptable and align business needs to the beneficial interests of the supply chain partnership is highly valued.

How does this relate to cooptation in supply chains? Cooptation has its origins in games theory and stems from an acknowledgement that processes of value creation and sharing take place simultaneously within interfirm interdependence. Even though firms might be competitors they can still partner on some levels. There are convergent interests or goal structures which are interconnected.

In cooptation the overriding interest of one partner is not necessarily aligned with that of the other but cooperation can occur in activities at a distance from the buyers. Competition on the other hand is carried out closest to the buyers. The driving force behind this is the heterogeneity or diversity of resources driving each company's competitive advantage, allowing a mix of relationships based on context, so that benefits such as sharing innovation costs, shortened lead times and individual company opportunism are still derived.

3PL and 4PL are good examples of partnering and cooptation. Development costs in information and technology are often shared and solutions for greater market issues such as regulatory changes sought through collaboration even though the firms may be competitors from a buyer perspective.

Competence is the underlying aspect at any level of supply chain dealings, whether it is developing and managing relationships, or evolving strategic direction. One of the biggest challenges facing supply chains and logistics is the need to establish a united view on issues of mutual interest. This cannot be done without strong leadership – within the firm, the industry and the supply chain.

With power unevenly distributed within industries, understanding what makes effective partnerships is important and having competence within the organization to manage these complex relationships is even more so – from a competitor and a co-operator perspective and the coordinating perspective of service providers.

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