



What you measure is *not* necessarily what you get: The role of socialization in managing supplier relationships

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Performance measures are used extensively to monitor supplier performance and assess relationship health. However, the critical role of socialization in determining the effectiveness of these measures and improving business performance has received little attention. We show that performance metrics alone do *not* improve firm performance, but rather, it is the way people work and communicate in conjunction with these measures that is important.

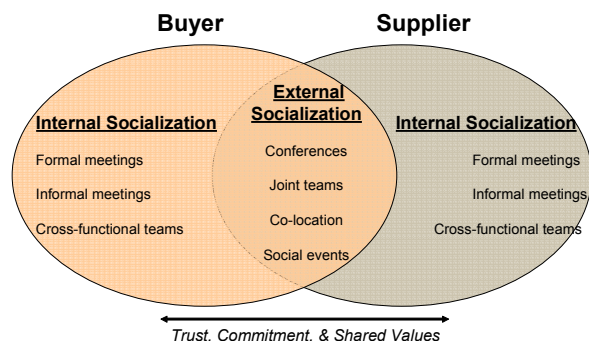
Background

Close relationships with a smaller number of suppliers is an effective approach to managing today's supply chains. These collaborative relationships are highly interactive, requiring constant monitoring and interpersonal liaison between employees of the buyer and supplier in order to be effective and deliver improvements in firm performance. Buyers have sought to manage these supplier relationships in a number of ways. First, they may use formal performance monitoring systems to assess suppliers' operational performance (e.g. cost, quality and delivery), as well as the extent of information sharing. Second, they develop interpersonal networks with their suppliers using socialization mechanisms such as social events, cross-functional teams, supplier conferences, onsite visits, and joint workshops. However, very little is known about the differing impacts on firm performance of measuring supplier performance versus using socialization mechanisms. Our study seeks to shed light on the issue.

Socialization Mechanisms

Socialization mechanisms focus on the way a firm and its people interact, and help explain why some firms are more successful at managing supply relationships than others. Within a buyer-seller relationship, socialization mechanisms enable each partner to learn about the others' culture, expected behaviours, and dynamics, helping create social norms and shared understandings. No matter how experienced and successful each individual firm may be at managing relationships, new relationships require processes for the parties to get to know one another and for trust and confidence to be built. Socialization mechanisms fulfil this role, helping build trust and respect in the relationship, as well as helping partners deal with exceptional events, such as shortages of supply, and other uncertainties or conflicts.

While this approach has been widely recognized as important in Asian cultures, the central role of socialization between buyers and suppliers as a means to an end is often overlooked in Western contexts, and indeed often viewed with suspicion and as costly and non-value-adding by many firms. We illustrate these mechanisms and their flows between buyer and supplier in the figure below.

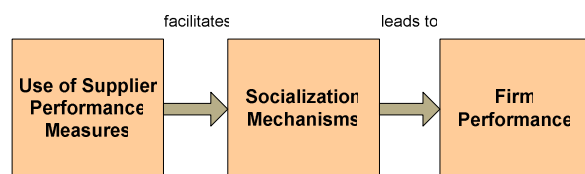


Supplier Performance Measurement

Managing supplier performance is a critical responsibility of purchasing managers. A core tool for carrying out this task is the use of performance measures to evaluate and monitor supplier performance. Price has traditionally been considered as the single most important factor, although other dimensions including quality, delivery and flexibility have become increasingly more important. In addition, the emphasis on manufacturing systems, such as just-in-time (JIT), Total Quality Management (TQM) and lean manufacturing have made assessing the health of long-term buyer-supplier relationships more central to organisational competitiveness. Consequently, the buyer must continuously monitor supplier performance across multiple dimensions, not just operational (e.g. cost savings), but also along other parameters that promote and strengthen the relationship itself such as problem solving, communication flows, process improvements and new product or service ideas.

Research Questions

Our study is based on three key research questions. These are now discussed, and help build the theoretical model presented below.



1. Do socialization mechanisms have a positive impact on firm performance?

Over time, socialization mechanisms provide the conduit through which buyers and suppliers begin to understand the peculiarities and

barriers that stand in the way of gaining operational efficiencies. Thus, socialization mechanisms, which build common values and history, are important prerequisites for long-lasting trust-based cooperation. The more explicit and intensive the socialization processes, the more quickly trust can be built and confidence levels in the relationship raised. Social interactions between buyers and sellers are also associated with greater problem solving, cost reduction and transfer of 'best practice'. Thus, the more socialization that takes place between buyer and seller, the greater the improvement in firm performance.

2. Does the use of performance measures to monitor suppliers improve performance?

Performance measures are a key driver and motivator for action within (and between) firms; and are likely therefore to influence firm performance. In essence, we test the old adage "what you measure is what you get". Two types of supplier performance measures are examined: operational and communication. *Operational measures* of supplier performance are used to assess the extent to which suppliers' consistently deliver quality goods, on-time, and at agreed cost. Operational measures focus attention on the routine business processes underlying the relationship, tend to be objective, and are relatively easily assessed.

By contrast, *communication measures* of supplier performance act to encourage a climate of interaction and exchange. Performance measures may assess the effectiveness of communication, level of information exchange, information quality and timeliness, and the degree of feedback from the

supplier. Each type of performance measure serves to focus managerial attention on meeting the relationships goals and objectives.

3. What is the relationship between socialization mechanisms and supplier performance measurement?

Our model suggests that the use of supplier performance measures to manage the buyer-seller relationship helps improve firm performance. However, the potential becomes reality only when buyer-supplier socialization mechanisms which help generate common values and norms are encouraged. Thus, a firm lacking strong supply chain socialization mechanisms may not necessarily achieve improved performance outcomes, even though they have implemented the 'correct' performance measures.

To illustrate, Honda of America send monthly 'report cards' to their key suppliers covering both operational- and communication-related dimensions. Yet they also back this up with intensive 'socialization mechanisms', such as formal briefings and informal meetings, to help build trust and understanding between the parties. Thus, socialization mechanisms provide an important avenue of dialogue to act upon the issues identified through the performance measurement 'control' process.

Method

We sampled 520 UK manufacturing firms from the KOMPASS database, receiving 142 responses (27.3% response rate). Purchasing executives within the buyer firm were asked to answer the survey in the context of a single supplier relationship considered strategic to

their firm. We used a statistical modelling technique called Structural Equation Modeling (SEM) to help answer our research questions.

Results

We found that *socialization mechanisms* such as supplier conferences, on-site visits, social events, cross-functional teams, and co-location significantly improved firm performance (i.e. profitability, return on assets, cash flow). We also found that socialization practices allow the buyer and seller to establish common norms, and inter-personal linkages, which facilitate joint problem solving and informal integration, and in turn, leads to improved performance. Socialization mechanisms are recommended to managers as a means of improving performance.

Interestingly, *supplier performance measures* (both operational and communication) had no direct effects on firm performance. Instead, our results show that the use of performance measures to monitor suppliers' had only an indirect impact on firm performance transmitted *via* socialization. We show that these measures only impacted on performance when *socialization* mechanisms were working effectively.

Performance measures assessing the level of information exchange and communication within the relationship provide formal incentives for the buyer and supplier to interact, stimulating exchange and dialogue focused around improving the health of the relationship and value creation. In turn, the personal contacts and trust formed between buyer and

seller through the socialization process improve firm performance.

Similarly, operational performance measures which assess a supplier's routine performance along dimensions such as cost reduction, delivery, and reliability, increase the use of buyer-supplier socialization mechanisms. In turn, socialization mechanisms stimulate interpersonal interactions with the supplier enabling the buyer firm to increase its business returns from the relationship.

Discussion

Interviews with managers provide support for these findings. We found that although supplier performance measures were a useful means of anchoring and focusing the relationship, it was socialization mechanisms, such as on-site visits, and supplier conferences, which created dialogue and communication with suppliers about continuous improvement and the buying firm's expectations of suppliers.

In a more general sense the purchasing managers that we interviewed commented that although intuitively they knew that 'socialization' worked, it was difficult to show their effects explicitly on their organization's performance. When faced with a highly competitive environment, socialization initiatives were among the first types of activities cut back, and was considered a direct reaction to management not being able to see any definable business benefit from these approaches. Our research provides evidence that socialization processes have an important effect on firm profitability. Socialization mechanisms are akin to oil in an engine - when

it's present you do not notice the benefits - however, when it runs out the effects quickly become obvious as the car engine seizes.

A good example of the power of socialization, coupled with effective performance measurement, was in a large supplier of I.T. networks. The Purchasing Director had established a 'Supplier Academy' explicitly to socialize the suppliers into the norms and values of the buyer. Face-to-face meetings were held twice a year at the managerial level, while technical employees of the suppliers would participate in away days once every 18 months. These avenues allowed the buyer and supplier to work on specific problems, but also to buy into each others' cultures and gain a clearer understanding of their working arrangements. Significant cost savings and improvements in service levels were reported as the parties undertook process redesign and joint problem solving.

Importantly, the Academy was supported by measures used to assess and monitor the suppliers' operational performance. These measures weren't just collected and filed, but rather, suppliers were held accountable and were used to drive discussions at the Supplier Academy. This method proved so successful that the buyer's large customer asked them to set up a similar activity with their suppliers i.e. one supplier advising a customer on how to manage their supplier relationships!

Recommendations & Outputs

1. Managers often prefer to rely on performance measures to monitor their suppliers, with their attention drawn to any

abnormal variations in performance. However, we caution that this choice can come at the expense of developing interpersonal linkages and social networks with key suppliers. Indeed, evidence from this study suggests that the use of performance measures in evaluating supplier performance serves to improve firm performance *primarily* because they stimulate greater socialization activities.

2. Given the pivotal strategic role of the purchasing manager in developing working relationships and effective communication that lead to competitive advantage, it is vital that they understand and encourage these socialization processes. However, due to professional ethics, or company culture, few firms do this effectively or with a defined purpose. With appropriate guidelines in place, socialization mechanisms can be a powerful tool of supply managers.
3. Monitoring supplier performance is not of itself sufficient to generate superior performance. Rather, it is the processes of socialization occurring between the buyer and supplier that are critical to the success of the relationship. This more complex role for socialization means that what you measure is, in fact, *not* necessarily what you get.

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The Supply Chain Management Research Group (SCMrg) was launched in January 2006. It aims to be an internationally recognised centre of excellence for scholarly and relevant research in Supply Chain Management. Further information about SCMrg including its research projects, industry briefings and scholarly publications can be found at: www.mbs.ac.uk/research/supply-chain/