The Nature of Interfirm Partnering in Supply Chain Management

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This paper conceptually integrates the antecedents and consequences of strategic and operational partnering. We suggest a continuum exists from strategic to operational partnering depending on the level of antecedents, orientation, and implementation. This paper, thus, expands the theory of partnering by providing an inclusive picture of the "partnering" phenomenon with the environmental pressures, antecedents, orientation, implementation, and consequences of strategic and operational partnering for vertical relationships within retail supply chains.

Partnering between firms is an increasingly common way for firms to find and maintain competitive advantage (Mentzer, 1999; Mohr and Spekman, 1994). Wal-Mart has successfully pursued this strategy by forming partnerships with such vendors as Procter and Gamble, 3M, and Philips Consumer Electronics to reduce inventory and other logistics costs for both the retailer and the vendor. A partnership occurs through extensive social, economic, service, and technical ties over time (Stern, El–Ansary, and Coughlan, 1996), but requires mutual commitment, trust, and common goals (Dwyer and Tanner, 1999; Morgan and Hunt, 1994), as well as communication and cooperation (Morgan and Hunt, 1994). While most partnerships share some common elements and characteristics, there is no "ideal" relationship that is appropriate in all situations (Ellram and Cooper, 1990; Lambert, Emmelhainz, and Gardner, 1996). In fact, many relationships in retail supply chains are simply transactional, implying a tactical buyer-seller relationship, with little of

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Journal of Retailing, Volume 76(4) pp. 549–568, ISSN: 0022-4359
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the aspects of partnering discussed in this paper. Partnerships are reserved for retailer-vendor relationships where some degree of continuity is expected, and the focus of the relationship goes beyond price (Frazier, Spekman, and O'Neal, 1988).

A partnership is an interorganizational entity developed between two independent organizations in a vertical relationship within a supply chain. A supply chain consists of multiple partnerships (Gentry, 1996) and, therefore, partnering is important for successful retail supply chain relationships. Supply chain management research has traditionally focused on the operational aspects of the supply chain, that is, the efficient flow of products and services, but there is a benefit in considering retail supply chain strategy in terms of relationship building among retailers and their key supply chain members.

Mentzer et al. (1999) define Supply Chain Management as "the **systemic, strategic coordination** of the traditional business functions and the tactics across these business functions within a particular company and across businesses **within the supply chain** *(that consists of multiple firms)*, for the purposes of improving the long-term performance of the individual companies and the supply chain as a whole" (parentheses and emphasis added). This suggests supply chain management is the management of close interfirm relationships, so understanding partnering is important to develop successful retail supply chain relationships.

Webster (1992) proposed a continuum from interdependent partnerships to strategic partnerships, based upon the degree of interdependence of the partners, the exclusivity of the relationship, and the strategic goals of the relationship. Johnson (1999) defined strategic integration (i.e., a strategic partnership) as one where firms have a strategic mind-set toward the interfirm relationship. Frazier, Spekman, and O'Neal (1988) distinguished relationships from one-time supply chain transactions. However, no single, clear set of criteria exists that differentiates the nature of strategic partnering from other types of partnering. Furthermore, Achrol (1991), Johnson (1999), Thorelli (1986), Varadarajan and Cunningham (1995), and Webster (1992) emphasized strategic partnering but ignored other types of partnering. Thus, although examinations of transactional relationships exist in the marketing channels literature, and examinations of the formation process and characteristics of strategic partnerships have been abundant, explanations of why some interfirm relationships become strategic and others do not and how strategic partnering differs from other types of partnering are lacking.

Only by deciding on the type of partnering a retailer wants to accomplish with other firms and, accordingly, combining a partnering orientation and its implementation at an appropriate level, will retailers gain the full benefits of partnering. Further, researchers should not assume all partnering relationships are strategic and ignore the operational aspects of partnering. Therefore, in this paper, we suggest a continuum of strategic and operational partnering based upon (1) the orientation of the partners and (2) the degree of implementation of partnering between two independent firms. **Strategic partnering** is an on-going, long-term interfirm relationship for achieving strategic goals, which delivers value to customers and profitability to partners. For example, many retailers have realized the need for strategic integration with offshore suppliers after witnessing the strategic advantage attained by such brands as Tommy Hilfiger and Ralph Lauren/Polo, and such stores as Federated Department Stores and May Department Stores. **Operational partnering** is an as-needed, shorter-term relationship for obtaining parity with competitors.

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Operational partnering is found in such apparel retailers as The Gap that exclusively sells its own brands. This type of retailer may switch offshore suppliers based on the suppliers' availability and other purchase terms and, thus, obtains operational efficiency.

The purpose of this paper is, thus, to provide an integrated view of partnering by showing the similarities and differences between strategic and operational partnering in terms of environmental pressures, antecedents, orientation, implementation characteristics, and consequences. Figure 1 provides the conceptual framework of these relationships. To accomplish this purpose, we first examine in more depth the concepts of strategic and operational partnering and then follow the flow of Figure 1 throughout the rest of the paper. This flow first examines the environmental pressures that have led to an increase in supply chain partnering. The phenomena surrounding the formation of partnerships is then examined, including the antecedents to an orientation toward strategic or operational partnering, the implementation of strategic versus operational partnerships, and the consequences of each in terms of competitive attainment and performance. Throughout this discussion, propositions are offered where appropriate. The paper concludes with a discussion of the managerial and research implications of this differentiation between strategic and operational partnering.

PARTNERING ORIENTATION

Retailers do not pursue partnering relationships with all their vendors. The implementation costs (in terms of capital, technology, processes, risk, and people) are too great. Thus, even retailers that do engage in partnering do so only with a select group of vendors that have a similar orientation toward partnering. An orientation toward partnering is the partners' patterns of shared values and beliefs that help individuals in the partner firms understand the functioning of the partnership and, thus, provide partnership behavioral norms (cf., Deshpande and Webster, 1989). This partnering orientation exists on a continuum from strategic to operational.

Strategic Partnering Orientation

Strategic partnering is a relationship designed to achieve long-term strategic objectives and, thus, improve or dramatically change a company's competitive position (Hitt, Ireland, and Hoskisson, 1999; Webster, 1992) through the development of new technology, new products, and new markets (Webster, 1992). Johnson (1999) proposed strategic partnering exists when a firm perceives: (1) its long-term strategy depends on maintaining a good, healthy relationship with its partner, (2) the relationship with its partner is important, and (3) a strong cooperative relationship with its partner is necessary to be competitive in the industry. Ganesan (1994) suggested retailers with a long-term orientation are concerned with both current benefits (i.e., operational efficiency and effectiveness) and future outcomes (i.e., competitive advantage). A strategic partnering orientation

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includes exclusivity and nonimitability (Lambert, Emmelhainz, and Gardner, 1996; Varadarajan and Cunningham, 1995). If the competitors of either firm replicate the relationship or similar cooperative arrangements are made between a partner and the major competitor of the other partner, the relationship cannot be strategic.

Partners in a strategic partnering relationship recognize each other as an extension of their own firm (Lambert, Emmelhainz, and Gardner, 1996). Johnson (1999) suggested a firm's perceptions of strategic partnering include (1) considering its partner a large part of the picture, (2) not thinking of its own long-term strategy when it makes plans with its partner, and (3) if its partner went out of business, the firm would have to change its competitive strategy. For example, the trading company, Li & Fung, performs integrated product development, sourcing, financing, shipping, handling, and logistics for The Limited (Magretta, 1998a). This strategic partnership would not survive if both the trading company and the retailer were not achieving short-term operational advantages, and long-term strategic goals. Further, both partners perceive the partnership as exclusive and not easily imitated by the competition.

Operational Partnering Orientation

An operational partnering orientation seeks improvements in operational efficiency and effectiveness. Efficiency minimizes resource use to accomplish specific outcomes, whereas effectiveness is the ability of channels to deliver products or services in a manner that is acceptable to end users (Stern, El–Ansary, and Coughlan, 1996). Operational objectives specify expected performance in terms of delivery speed and consistency, flexibility to handle extraordinary customer service requests, and recognition of malfunctions and recovery from them to serve customers (Bowersox and Closs, 1996). Efficiency is measured by delivery time, product quality, number of short orders, and inventory levels. Effectiveness is measured by service quality and the service needs of the focal firm and the focal firm's customers (Mentzer, 1999).

Operational decisions involve shorter time spans (Ganesan, 1994; Lambert and Stock, 1993), fewer organizational resources, and are easier to implement and reverse (Hitt, Ireland, and Hoskisson, 1999) than strategic decisions. Thus, competitors are more able and likely to match operational actions than strategic actions (Grimm and Smith, 1997). Finally, each partner does not perceive the other as an extension of its own firm.

Strategic and operational partnering are distinguished from transactional buyer-seller relationships by degree (Frazier, Spekman, and O'Neal, 1988). Strategic partnering includes an orientation to view the partner as an extension of their own firm, involving the partner in long term strategic initiatives. Operational partnering views the partner as a close associate in improving supply chains efficiency and effectiveness in the short term. Strategic initiatives are not shared with operational partners, but considerable operational coordination still occurs. Transactional relationships are treated on a purchase-by-purchase basis (Frazier, Spekman, and O'Neal, 1988). The relationship between the buyer and the seller does not look beyond the scope of the individual purchase and, thus, does

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not address the level of operational coordination of operational partnering or the strategic coordination of strategic partnering.

ENVIRONMENTAL PARTNERING PRESSURE

Regardless of whether strategic or operational, what has led to the increase in partnering in retail supply chains? The primary reasons derive from markets becoming more international, dynamic, and customer driven. Customers are demanding more variety, better quality, and greater service. Product life cycles are shortening and product proliferation is expanding (Fliedner and Vokurka, 1997). Retailers are at the center of these dynamic market changes, their costs often dramatically affected by rapidly shifting consumer tastes. Relationship marketing, born amid such market turbulence, aims at developing lasting relationships based on long-term benefits and mutual affinity between buyers and sellers (Achrol, 1997). Three environmental pressures encourage the formation of partnerships: environmental uncertainty, global competition, and time and quality based competition.

Uncertain industry structure and market environment encourages the formation of partnerships (Lambe and Spekman, 1997). This is illustrated in Figure 1 by the direct effect of Environmental Partnering Pressure on the Formation of Partnerships (contained within the dashed box). Relationships between firms offer higher levels of interfirm coordination, greater stability, and flexibility (Achrol, 1997; Fliedner and Vokurka, 1997). In highly uncertain environments with changing markets, firms internalize fewer resources and capabilities than in stable markets (Osborn and Baughn, 1990; Sanchez, 1993). Instead, firms apply resources and capabilities (the retailer's and its partner's) to transforming perceived possibilities into new products (Sanchez, 1993) and retail market offerings. Ellram and Krause (1994) found the top reason for entering partnerships was to secure reliable supply sources. In addition, because technological changes are largely uncontrollable by individual firms, firms form partnerships to develop new technologies or products, or to borrow cutting-edge technologies developed by their partners to satisfy customer needs. The recent innovation of vendor managed inventory is an example of retailers applying their suppliers' capabilities and technologies to managing retail store inventories (all in the face of increased retail market uncertainty).

> **P_1:** *Environmental uncertainty is positively related to the formation of partnerships within supply chains.*

Globalization increases the range of opportunities to compete (Hitt, Ireland, and Hoskisson, 1999). For example, in the last five years, Wal-Mart has expanded from a solely U.S. based retailer into Canada and much of Latin America. Much of Wal-Mart's future growth is expected to come from global markets. As firms globalize, regardless of their size, they lack the total resources required for success and, thus, recognize the necessity of partnering with other firms (Kotler, 1997). Firms that focus on domestic markets must also be able to understand foreign rivals that penetrate their markets

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(Fawcett, Calantone, and Smith, 1996). As such, firms have no choice but to develop a global perspective or risk competitive extinction (Hamel and Prahalad, 1985). Often, this global perspective is not developed internally, but rather obtained through partnerships.

> **P_2:** *Degree of global competition is positively related to the formation of partnerships within supply chains.*

With product life cycles shortening and product proliferation expanding (Fliedner and Vokurka, 1997), firms are forced to compete based on quality products, consistent product availability, and faster product delivery. Time and quality-based competition eliminates wasted time, effort, defective units, and inventory (Larsen and Lusch, 1990; Schonberger and El–Ansary, 1984; Schultz, 1985). Companies that compete effectively on time tend to be good at such things as quality, insight into evolving customer needs, ability to exploit emerging markets and enter new businesses, and generating new ideas and incorporating them into innovations (Stalk, Evans, and Shulman, 1992).

The most popular time and quality-based concepts (facilitated by partnering) are just in time (JIT), quick response (QR), and vendor managed inventory (VMI) (Mentzer, 1999). JIT requires a significant amount of cooperation between partners, and partnership development can reduce the costs for both parties and increase relationship solidarity between partners (Hitt, Ireland, and Hoskisson, 1999). QR and VMI are similar to JIT but deal with the distribution of finished products from manufacturers and wholesalers to retailers (Larsen and Lusch, 1990). JIT, QR, and VMI require firms to implement partnering to respond to customers quickly and flexibly.

> **P_3:** *Increased time and quality based competition is positively related to the formation of partnerships within supply chains.*

ANTECEDENTS OF A PARTNERING ORIENTATION

Achrol, Scheer, and Stern (1990) identified commitment, trust, group cohesiveness, and motivation of alliance participants as critical to interfirm strategic alliances. Smith and Barclay (1997) and Bucklin and Sengupta (1993) found the key predictors of effective alliances are power imbalance or dependence, managerial imbalance, dysfunctional conflict resolution, organizational compatibility, prior history of the business relationship, and rate of technological change. In addition, Mentzer (1999) and Day (1995) suggested top management vision as a partnering antecedent. Coalescing these factors, we propose that, once the environmental pressure to form partnerships exists in the macro environment, interdependence, conflict, trust, commitment, organizational compatibility, and top management vision of the firms within a particular supply chain are antecedents of the partnering orientation type (strategic versus operational) that results (Figure 1).

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Interdependence

Interdependence encompasses "each channel member's dependence, the magnitude of the firms' total interdependence, and the degree of interdependence asymmetry between the firms" (Kumar, Scheer, and Steenkamp, 1995). Relative dependence is the difference between the firm's dependence on its partner and the partner's dependence on the firm (Anderson and Narus, 1990). Total interdependence is the sum of both firms' dependence (Emerson, 1962; Lawler and Bacharach, 1987). Symmetric relative dependence exists when both partners are equally dependent on each other. Channel relationships that are asymmetric in relative dependence are more dysfunctional, less stable, and less trusting than symmetric relationships (Anderson and Weitz, 1989; Stern and Reve, 1980). Regardless of whether the firm is in a position of relative power or relative dependence, increasing asymmetry in relative dependence and decreasing total interdependence generates greater conflict, lower trust, and lower commitment. Conversely, commonality of interests is strongest in symmetric relationships (Kumar, Scheer, and Steenkamp, 1995). Furthermore, increasing total interdependence in symmetric relationships enhances performance (Buchanan, 1992). Sears and Whirlpool, for example, have enjoyed a long and mutually beneficial strategic partnership in the manufacture and distribution of Kenmore appliances, due in large part to the fact that both companies depend upon the size and capabilities of the other (i.e., large total interdependence and symmetric relative dependence). Thus, the greater the interdependence, the stronger is the motivation to form a long-term, strategic partnership.

> **P_4:** *Interdependence is positively related to a strategic partnering orientation.*

a: The level of total interdependence in symmetric relative dependence is positively related to a strategic partnering orientation.

b: The level of asymmetric, relative dependence is inversely related to a strategic partnering orientation.

Conflict

Conflict is behavior that impedes, blocks, or frustrates another firm's goal pursuit (Thomas, 1976). Jaworski and Kohli (1993) measured interfunctional conflict as tensions between members of several departments, and turf battles to protect departmental interests. By the same token, tensions between partners and turf battles are critical barriers to partnering, forming interfirm interface teams, and establishing interfirm reporting. Large U.S. retailers have often been criticized by their suppliers for using harsh negotiating tactics that restrict the supplier's ability to make a reasonable profit margin. Such transactional tactics that impede the supplier's profit goals—although they may meet the short-term procurement goals of the retailer—lead to long-term conflict, which limits the vendor's willingness to enter into long-term-strategic partnerships with the retailer.

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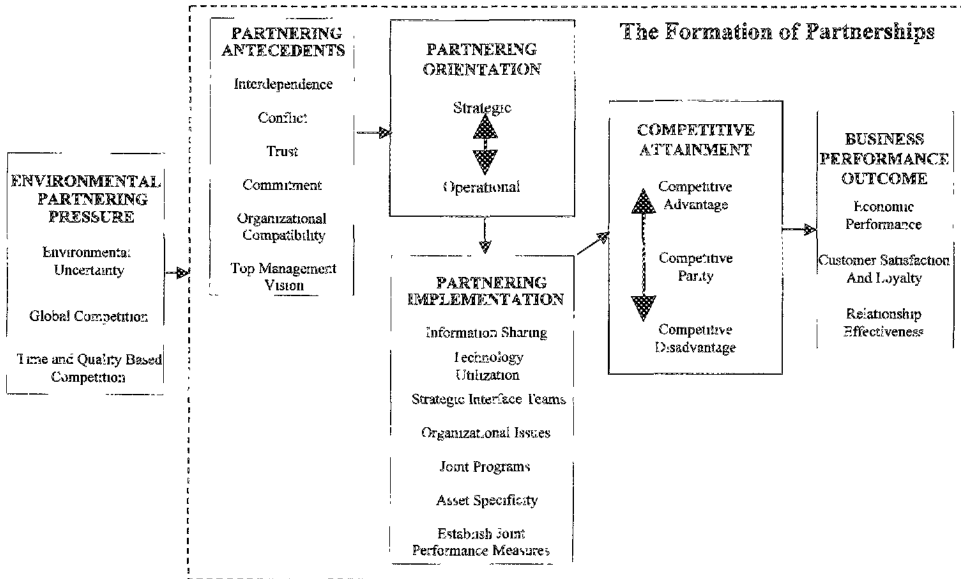

FIGURE 1

The Nature of Interfirm Partnering

P_5: *Conflict is negatively related to a strategic partnering orientation.*

Trust

Parties who trust one another can find ways to work out difficulties such as power, conflict, and lower profitability (Sullivan and Peterson, 1982), and trust stimulates favorable attitudes and behaviors (Schurr and Ozanne, 1985). Trust is an essential antecedent to strategic partnership investment because either tangible (e.g., communication and manufacturing/retailing technology investment) or intangible (e.g., most favorable transaction contract and sharing critical retail market information) trust requires partners perceive each other as trustworthy in terms of character, motives, role competence, and judgment (Wilson and Mummalaneni, 1988).

P_6: *Trust is positively related to a strategic partnering orientation.*

Commitment

Commitment is an enduring desire to maintain a valued relationship (Moorman, Deshpande, and Zaltman, 1993), and incorporates intention and expectation of continuity,

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and willingness to invest resources in the partnership (Anderson and Weitz, 1992; Dwyer, Schurr, and Oh, 1987; Mohr and Nevin, 1990). Commitment (1) is a critical success factor for long-term, strategic partnerships because firms sacrifice short-term benefits to realize long-term benefits (Dwyer, Schurr, and Oh, 1987); (2) shows an intention to become more deeply involved in the partnership through investments that entail risks (Kumar, Scheer, and Steenkamp, 1995); and (3) implies the importance of the relationship to the partners (Wilson, 1995).

> **P_7:** *Commitment is positively related to a strategic partnering orientation.*

Organizational Compatibility

Organizational incompatibilities between allied firms, in terms of reputations, job stability, strategic horizons, control systems, and goals, lead to less strategic (i.e., more operational) partnerships (Smith and Barclay, 1997). Bowersox (1990), Bucklin and Sengupta (1993), Kanter (1991), Lambert, Emmelhainz, and Gardner (1996), Main (1990), Rukert and Walker (1987), Smith and Barclay (1997), and Van De Ven and Ferry (1980) all found compatible corporate culture essential in long-term buyer-seller relationships.

> **P_8:** *Organizational compatibility is positively related to a strategic partnering orientation.*

Top Management Vision

Top management vision plays a critical role in shaping an organization's values and orientation (e.g., Felton, 1959; Hambrick and Mason, 1984; Kotter, 1990; Tosti and Jackson, 1994; Webster, 1989). Andraski (1998) argued the ability to accept a new paradigm of collaboration (i.e., partnering) requires a new breed of leadership from senior management. Top management must understand and embrace the significant operational and market impacts of partnering (Mentzer, 1999), and develop a good understanding of their potential partner and their top management (Hitt, Ireland, and Hoskisson, 1999; Mentzer, 1999), to achieve a strategic partnering orientation.

> **P_9:** *Top management's vision of partnering is positively related to a strategic partnering orientation.*

Without the synergy of a strong combination of trust, commitment, interdependence, organizational compatibility, top management vision toward strategic partnering, and little conflict between the partners, a strategic partnering orientation will not develop. Lower levels of these antecedents may lead to an operational partnering orientation. This suggests

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operational partnering and strategic partnering are each appropriate in particular situations, depending on the combination of these antecedents. For example, Wal-Mart has developed long-term strategic partnerships with certain key vendors, while maintaining operational partnerships with some other vendors, while keeping a purely transactional relationship with vendors where the primary focus is on using a number of competing vendors to obtain short-term, negotiated low prices.

The antecedents in Figure 1 may facilitate a partnering orientation, but they are not sufficient. Complementarities across the two partners must exist that provide the synergy to yield desired benefits. When these antecedents and complementarities exist, the parties with a partnering orientation will move to implement a partnership.

PARTNERING IMPLEMENTATION

Partnering orientation (strategic or operational) is implemented by information sharing, technology utilization, strategic interface teams, organizational issues, joint programs, asset specificity, and establishing joint performance measures (Figure 1).

Information Sharing

The collection, creation, management, and communication of information are critical to the efficiency, effectiveness, and competitive advantage of any supply chain (e.g., Global Logistics Research Team, 1995; Novack. Langley, and Rinehart, 1995; Stern, El-Ansary, and Coughlan, 1996). By providing the supplier with information on the retail firm's customer demand far in advance of when the product is needed, a lower cost of providing the product and lower incidence of customer service failure due to stockouts results (Mentzer, 1999). The combination of advance shipping notices with point of sales (POS) customer information, connected across retail supply chain partners through electronic data interchange (EDI), provides the ability for vendors to coordinate their shipments with retailer demand and plans and reduce supply chain inventories by as much as 40% (Kahn and Mentzer, 1996). Savings of this magnitude have led the Food Marketing Institute (FMI) to advocate efficient consumer response (ECR) systems among its members' supply chains. However, ECR requires considerable information sharing both about the final consumers and about plans to meet demand throughout the retail supply chain.

With the advent of the Internet, this level of information coordination—and its benefits—has increased, especially in the area of collaborative forecasting, planning and replenishment (CPFR). For example, Nabisco and Wegmans increased category sales by 13%, increased service levels from 93 to 97%, and decreased inventory days by 18% through a CPFR initiative; Kimberly Clark and Kmart increased in-stock rate from 86.5% to 93.4%, and increased retail sales 14% through CPFR; and Wal-Mart and Sara Lee Apparel reduced store-level inventory 14%, increased sales 32%, and increased retail turns 17% through CPFR (VICS, 1998).

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Shared information varies from strategic to tactical in nature and from information about logistics activities to general market and customer information (Global Logistics Research Team, 1995). For example, Philips Consumer Electronics experiences different types of shared information in its different partnerships: a major department store shares long-term marketing and logistics strategies as well as short-term plans with Philips, whereas a super appliance store provides only short-term demand forecasts with short notice. In the latter case, Philips has difficulty developing a long-term marketing and production plan for the partner. Thus, the nature of information shared differs with the orientation of the partners: partners with a strategic partnership orientation share information that is both strategic and operational, whereas partners with an operational partnership orientation share only operational information.

Day (1995) indicated multilevel information sharing between partner firms is useful because employees of both firms realize the benefits of partnering and develop linkages at different levels to ensure smooth operations. Cooper and Ellram (1993) argued firms in an operational partnership maintain a single contact for the transaction, whereas strategic supply chains have multiple communication levels. In short, partners in a strategic partnership practice multilevel information sharing, whereas firms in an operational partnership practice single or limited multilevel information sharing.

Technology Utilization

Strategic partnership success is often based on improving supply chain performance through such technology as EDI, bar coding, scanning, advance shipment notices, and sales forecasting (Mentzer, 1999). Information technology leads to more strategic partnering and greater reliance on time-based strategies, along with more transparent logistics organizational structures, and increased emphasis on performance measurement (Bowersox and Daugherty, 1995). Thus, partnering technology highlights the growing importance of channel communication and information dissemination (Stern, El–Ansary, and Coughlan, 1996). Strategic partnering utilizes more information technology than operational partnering in terms of the variety of technologies/databases that link the partners. More importantly, technology is more standardized and integrated in strategic partnering. Operational partnering requires technology for more tactical applications that are limited in scope and, thus, does not address the breadth of supply chain issues required to implement technology to realize a more strategic orientation.

Strategic Interface Teams

A team approach has been argued as the standard means of making strategic decisions that are complex or large-scale (Monczka, Trent, and Handfield, 1998). In implementing a strategic partnering orientation, a firm is so dependent on the partnership that it cannot think of developing strategy without its partner (Johnson, 1999). Therefore, strategic partnering requires each partner to participate in interfirm strategic interface teams.

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Partners in operational partnering will need similar teams for specific tactical issues, but they will not be as encompassing of the entire supply chain.

Organizational Issues

If functional silos with internal organizational barriers exist within both the buyer and supplier, it is unlikely organizational issues in a partnership will be solved. Thus, partners in a strategic partnership establish hierarchies and reporting relationships across partners that address a multitude of supply chain-wide issues. Partners in an operational partnership depend more upon their own hierarchy and reporting relationships while pursuing joint reporting relationships only for a more limited set of tactical goals.

Joint Programs

Joint programs include reducing supply chain inventories (Cooper, Ellram, Gardner, and Hanks, 1997; Dowst, 1988), new product development and product portfolio management (Cooper, Lambert, and Pagh, 1997; Drozdowski, 1986; Wasti and Liker, 1997), and design of quality control and delivery systems (Treleven, 1987). In strategic partnering, partners pursue strategic goals through on-going, long-term joint programs (Dyer and Ouchi, 1993) that depend upon each partner's unique skills (Wasti and Liker, 1997). For example, Dell Computer treats its suppliers as if they were part of the company and, thus, suppliers assign engineers to Dell's design team to launch Dell's new products and fix problems in real time when a customer calls with a problem (Magretta, 1998b). Operational partners expect joint actions only in limited, operational, short-term areas.

Asset Specificity

Many technology-based partnering assets are idiosyncratic (i.e., little value in other partnerships) and nonfungible (i.e., cannot be sold at any appreciable price) (Mentzer, 1999). The major risk carried by the investing company is the need to recoup its investment, which might lead to opportunistic behavior that ultimately threatens the partnership (Gundlach, Achrol, and Mentzer, 1995). Reciprocal obligations balance risks between buyer and supplier, and act as deterrents of opportunistic behavior (Pfeffer and Salancik, 1978). In operational partnering, asset specificity is relatively limited because partners need few organizational resources to take tactical actions that are easy to implement (Hitt, Ireland, and Hoskisson, 1999), and those actions are short-term (Ganesan, 1994; Lambert and Stock, 1993).

The potential exists for retailer opportunistic behavior when a vendor tells the retailer how to handle other vendor's (potential competitors of the developing vendor) products based on a planogram the vendor supplied. The long-term, strategic orientation of strategic partnering

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(and all the trust and commitment that implies) would have to exist before the vendor would take the risk of providing such a system to their partner retailer. With the short-term orientation of operational partnering, the vendor would not be willing to take this risk.

Establish Joint Performance Measures

Because partners in a strategic partnership utilize more joint planning and control through a strategic interface team, it is easier for partners to establish joint objectives and performance measures. Because partnering ties the collaborating companies' forecasting and materials management activities closer together, total system inventories can often be rationalized, improving return on working capital for both partners. This is contrary to traditional agreements where buyers and sellers focus on the effects of agreements on their own operating revenues, expenses, profits, and growth (Magrath and Hardy, 1994). Thus, partners in a strategic partnership reach agreement on broader performance measures than those in an operational partnership. These performance measures in a strategic partnership include measures of the total system, whereas those in operational partnering are more focused on the impact on each firm's performance.

COMPETITIVE ATTAINMENT

Competitive attainment is a continuum from competitive advantage through competitive parity to competitive disadvantage (Figure 1). Each of the positions along the continuum is relative to other competing supply chain partnerships. For example, a retailer might not consider partnering with a certain vendor, currently carrying only token components of the vendor's product line on a transactional basis, because competing retailers offered no better assortments. This would avoid incurring the implementation costs of partnering, but still offer an assortment that provided value in attracting customers. In this case, competitive parity is achieved without partnering.

However, Varadarajan and Cunningham (1995) argued strategic partnerships could achieve competitive advantage through the pooling of skills and resources. They classified the advantages into cost leadership and differentiation. Cost leadership entails being able to perform supply chain activities at a lower cost than competitors while offering a parity product (Day and Wensley, 1988; Porter, 1980, 1985). Differentiation entails being able to offer a product or service that customers perceive as having consistently different and important attributes relative to competitors' offerings (Day and Wensley, 1988; Porter, 1980, 1985).

Competitive advantage from strategic partnering cannot be sustained automatically (Barney, 1991; Day and Wensley, 1988), but must be: (1) valuable to customers (Barney, 1991; Day and Wensley, 1988), (2) not perfectly imitable by competition (Barney, 1991; Day and Wensley, 1988), (3) rare among a firm's competitors (Barney, 1991), (4) with no strategically equivalent substitute for the resource (Barney, 1991), (5) hard for the competition to find out

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how it works (Day and Wensley, 1988), (6) durable and not vulnerable to rapid depreciation or obsolescence competition (Day and Wensley, 1988), and (7) early movers have the power to deter competitors from imitating them (Day and Wensley, 1988). Competitive parity exists when the resource or capability is (1) valuable but not rare, (2) not costly to imitate, and (3) substitutable (Hitt, Ireland, and Hoskisson, 1999). Competitive parity brings short-term market position advantage, whereas competitive advantage provides long-term advantage because it is difficult for competitors to imitate. Thus, retailers who pursue operational efficiency and effectiveness will achieve only competitive parity because competitors can easily imitate them. Because manufacturers and retailers traditionally have seen each other as adversaries, it has been hard for manufacturer-retailer partnering to become strategically oriented (Hitt, Ireland, and Hoskisson, 1999).

Companies not capable of technology or product leadership, or who are unwilling to incur the implementation costs (in terms of capital, technology, processes, risk, and people) of such relationships, are unlikely to form the close interfirm involvement that is essential in strategic partnering. Since firms in a strategic partnership are interested in accomplishing both current and future goals (Ganesan, 1994), there is a higher chance that strategic partnering creates a relationship that is not easily imitated and, thus, enables each partner to obtain competitive advantage. Firms in an operational partnership, however, at most achieve competitive parity because they do not pursue long term, strategic goals that lead to competitive advantage. In the case of strategic partnering, the implementation costs are incurred in the hopes of obtaining a superior position over the competition. In the case of operational partnering, the lesser implementation costs are incurred as a defensive move—to obtain or maintain competitive parity, rather then slip into competitive disadvantage.

A competitive disadvantage may occur when a firm chooses not to enter partnerships with other firms in their supply chain while their competitors form partnerships, obtaining lower costs and/or differentiation. For example, small retailers in the Netherlands in strategic partnerships performed better and realized a higher profit than retailers with no partnerships (Reijnders and Verhallen, 1996).

> P_{10}: *Strategic partnering leads to higher levels of competitive attainment than operational partnering.*

BUSINESS PERFORMANCE

The level of competitive attainment affects both partners' business performance (Figure 1). Interfirm relationship performance is complex, multidimensional, and includes affective, behavioral, and economic aspects (Johnson and Raven, 1996). The highest level of competitive attainment (competitive advantage) leads to higher levels of partner economic performance, customer satisfaction and loyalty, and relationship effectiveness. Brands with high consumer loyalty face less competitive switching in their target segments, which can lead to higher prices and profitability (Moran, 1984). The same can be said of retailer customer loyalty. Relationship effectiveness is the extent to which both firms are com-

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mitted to the partnership and find it productive and worthwhile (Bucklin and Sengupta, 1993; Rukert and Walker, 1987; Van De Ven and Ferry, 1980), the extent to which each partner carries out its responsibilities and commitments, the time and effort to build and maintain the relationship, and satisfaction with the relationship (Anderson and Narus, 1990; Rukert and Walker, 1987; Van De Ven and Ferry, 1980).

CONCLUSIONS

We have argued that implementation of strategic partnering leads to sustainable competitive advantage, whereas operational partnering leads to competitive parity. Competitive attainment (advantage, parity, or disadvantage) leads each partner to pursue efficiency, effectiveness, creation of value added services, higher levels of customer satisfaction, and superior relationship performance. We do not, however, propose either operational or strategic partnering as the ideal interfirm relationship. Strategic partnering requires much time and effort to maintain a higher level of cooperation, and the investment in nonfungible assets may be difficult to recover. Operational partnering may be more appropriate and more likely to succeed between firms that are pursuing the maintenance of competitive parity. Transactional retailer-vendor relationships will continue to be more common in number than partnerships because they represent product assortments for retailers that incur little or no relationship implementation costs and the retailer does not see the assortment as a potential threat of competitive disadvantage. Operational partnering will, in turn, remain a far more common type of partnership, again because it is easier to achieve. Retailers that pursue partnerships should decide which type of partnering they will try to accomplish and, accordingly, combine a partnering orientation and its implementation at an appropriate level. We have tried in Figure 1 to present the key factors that affect the types of partnerships formed. However, we acknowledge this is a "first look" at this phenomenon–it is left to future empirical research to determine the viability of each of these factors, the synergistic nature of these factors, and any other factors that future research may uncover.

This article contributes to an enhanced understanding of the "partnering" phenomenon for both researchers and practitioners. We examined the often forgotten end of the partnering continuum (i.e., operational partnering), and suggested a set of criteria that explains the continuum from strategic to operational partnering. We suggest that researchers should not assume partnering relationships are strategic and ignore the operational aspects of partnering. By presenting an inclusive view of partnering, researchers should be able to better position their research on the continuum from strategic to operational partnering and, as a result, eliminate a possible confound from their research.

Construct measurement and empirical testing of the relationships in Figure 1 are left to future research. Further analysis of the types of market environments most appropriate for strategic versus operational partnering would be very useful. Although suggested by the relationships, the temporal aspects of strategic partnering are not fully explored in this study. Future longitudinal research should examine the evolutionary and interactive aspects of partnering orientation, implementation, and its consequences.

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Practitioners should acknowledge the fact that not all partnerships are strategic or necessarily need to be. Some partnerships are more appropriate as operational partnerships, especially in the short-term, possessing less trust and interfunctional coordination and, as a result, will not yield the same performance as strategic partnerships. A true strategic partnership cannot be achieved without a shared strategic orientation and a high level of partnering implementation. Finally, practitioners should be able to utilize the framework in Figure 1 to diagnose their current partnerships and arrive at prescriptions to redesign/reinforce their partnering relationships.

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