Chapter 94
Partnerships in Supply Chain Management

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ABSTRACT

This chapter considers one of the most important collaborations, namely that of partnership. In recent year's sophisticated and demanding consumer lead severe global competition between companies. So many companies seek to coordinate cross-firm activities and work mutually over time to produce outstanding performance. The main objective of the companies is to reach higher performance than would be achieved by managing individually. For any supply chain in the competitive environment, widening the boundaries of the firm via partnership formation would be the remedy and partnership creates a synergistic business environment for both sides. The objective of the chapter is to present a comprehensive and integrated view of the literature on all aspects of partnership.

INTRODUCTION

This chapter considers one of the most important collaborations, namely that of *partnership* in the supply chain. A partnership is an evolution of the relationships between buyers and suppliers (Maloni & Benton, 1997) and a supply chain comprising multiple partnerships (Menzter, Min, & Zacharia, 2000). For providing ordinary and basic requirements of a company, simple purchasing activities are sufficient and relevant and no deep relationship formation is essential with suppliers. However, when the requirements start to being complicated and complex, building a supply management system is essential. Evolving from purchasing – which is an operating level activity – to supply management which is a strategic one (Kraljic, 1983) requires some revolutionary change in the perspective of companies. The simple transactions to implement a supply management system necessitate establishing any kind of partnerships with counterparts.

DOI: 10.4018/978-1-7998-0945-6.ch094

The objective is to present a comprehensive, integrated view of the literature on all aspects of partnership. To meet this goal, we define partnership in a different perspective. Additionally, this chapter explains the following topics: boundary decisions of the firm; the characteristics of the partnerships in the Supply Chain Management (SCM); the importance of partnerships in the SCM; the role and relevance of partnering in the SCM; partnering versus outsourcing; most cited partnering model's in the literature; strategic role of partnering in SCM; quality of partnership; partner selection; and supply chain partnering in construction as an industry application. Finally, the conclusions and future remarks for researchers are discussed.

BOUNDARY DECISIONS OF THE FIRM

An organization can be characterized as its boundaries which are a physical, arbitrary, or imaginary line of demarcation acting like a cell membrane or a barrier to separate territories of organizations (Crowley & Karim, 1995). The aim of the theory of the firm is to provide an explanation of the conditions when a firm should do things by itself rather than provide them through the market to minimize production and transaction costs (Weigelt & Miller, 2013). In addition, the theoretical explanation of the boundary of the firm is diverse. To give an insight to the reader a narrow-scoped explanation will be provided. For more information, the following are suggested: Coase (1937), Williamson (1975, 1985), Crowley & Karim (1995), and Sousa (2010, 2014).

Contrary to what is generally known, Sousa (2014) stated that an economic activity of a firm may be actualized in three ways:

1. Firms do things by themselves within the boundaries of the firm (make).
2. Traded in markets: firms get things done by others (buy).
3. Exchanged mutually rewarding buyer-seller interaction: firms buy from or cooperate with counterparts (cooperate).

Make-or-buy-or cooperate decisions specify the boundaries of the firm. Boundaries can be kept the same or be changed according to requirements of the firm. The main questions to answer include which "resources, capabilities and activities" reside internally, and which are to remain outside and how as a purchasing activity or cooperating with counterparts (Sousa, 2014).

Firms' boundary choices more clearly saying widening and narrowing of corporate boundaries can be better understood by considering the pressure between the need for external resources and the need for risk controls (Kaufman, Wood & Theyel, 2000). Crowley and Karim, 1995 further pointed out that boundaries are interfaces of the firms which can be described as permeable and/or flexible. Flexible boundaries allow the firm to reorganize its resources. Permeable boundaries allow exchanging information and ideas through inside and outside of the boundary. Besides its benefits of cooperative activities, information exchanges between partners could cause some leakages and may ended up with unwillingly sharing proprietary information with competitors.

The seminal transaction cost theorist Coase (1937) emphasizes in his work titled, *The nature of the firm*, the significant role of the boundary of the firm and asked why firms exist? According to Coase (1937), firms decide the expansion of their boundaries according to transaction costs – the cost of using the price mechanism (market). More clearly, firms would perform an activity inside their boundary if

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