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► **To cite this version:**

Gwenaëlle Nogatchewsky. Control configurations in buyer-supplier relationships: environment- buyer organisation- goals and modes of control. 28th EAA Congress, May 2005, Göteborg, Sweden. pp.1-20. halshs-00145133

**HAL Id: halshs-00145133**

**<https://shs.hal.science/halshs-00145133>**

Submitted on 8 Jul 2010

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# **CONTROL CONFIGURATIONS IN BUYER-SUPPLIER RELATIONSHIPS: ENVIRONMENT – BUYER ORGANISATION – GOALS AND MODES OF CONTROL**

*Abstract: Considering the growing externalisation of strategic activities, the problem of the control of buyer-supplier relationships is crucial. Therefore, researchers usually propose modes of control that are adapted to various environments. However, the organisations are often considered as “black boxes” whose goals are unspecified. This paper examines buyer-supplier control configurations that take into account the organisation of buying firms and their goals toward their suppliers. This research is based on six case studies conducted in the manufacturing industry (60 interviews). The outcome of the research is a matrix which represents four configurations of buyer-supplier control, based on the global purchasing environment of the buying firm (in terms of reciprocal dependence between the buyer and its suppliers). For each configuration, a type of purchasing organisation (structure and intra-organisational control of purchasing agents) and a principal goal for the buying firm are proposed: the lord-buyer wants to exert its power, the partner-buyer aims at assuring goal congruence with its suppliers, the vassal-buyer tries to reduce uncertainty and the market-buyer seeks to grasp opportunities on the market. For each configuration, the modes of control that the buyer exerts on its suppliers –in terms of means, objects of control, influence strategies of the buyer (more or less coercive) and suppliers reactions- are coherent with the main goal of the buyer.*

**Key words:** *inter-organisational control – buyer-supplier relationship – power – dependence – Goals of control*

## **INTRODUCTION**

Outsourcing is a form of inter-firm relationships that has become a crucial subject of study. In many industrial sectors, the economic performance of firms that outsource (here the buyer firms) is due, to a large extent, to the suppliers that contribute roughly 80% of the added value of products sold. Moreover, firms are implicated in the long term with suppliers that conceive and realise their strategic components. As a result, buyer firms need to manage their relationships and more specifically to organise the control of their suppliers to reach their goals.

Research studies on inter-organisational control have proliferated during the last decade. In particular, considering the diversity of relationships, authors have developed typologies that are adapted to the characteristics of the transactions, environment and parties (Dekker, 2004; Dumoulin, 1997; Hakansson and Lind, 2004; Van der Meer-Kooistra and Vosselman, 2000). Though these works have added the growing knowledge of the design of control systems in outsourcing relationships, the authors generally consider the firms as “black boxes” whose goals are underspecified.

This paper examines control in outsourcing relationships and takes into account the organisation of buyer firms and their goals toward their suppliers as well as the modes of control they exert on them. We want to give some theoretical and empirical evidence to answer to the question: Why and how buyers control their suppliers?

This research is based on six case studies conducted in the manufacturing industry. The purchasing environment of these firms is characterised by the degree of reciprocal dependence between this firm and its suppliers. The internal purchasing organisation of these firms has been studied (in terms of structure and intra-organisational control of purchasing agents) and the control they exert over their suppliers.

This paper is structured in three parts. The first examines the three main views on inter-organisational control in the literature (transactional, relational and power-dependence views) and the conceptual framework of the study. The second is dedicated to the presentation of the qualitative methodology. The third presents the four buyer-supplier configurations that have been observed: lordship, vassalage, market and partnership.

## **1. CONCEPTUAL BACKGROUND**

### **1.1. Control in Inter-organisational Literature**

Three main views structure inter-organisational control literature (Heide, 1994): the Transactional view, the Relational view and the Power and Dependence view. In each of these views, theorists propose modes of control that aim to one or several goals.

#### **1.1.1. Goals and Modes of control in the Transactional View**

The transactional view gathers theorists who analyse exchanges as economic transactions. In this view, the transaction cost theory (TCT) developed by Williamson (1985) indicates that the characteristics of transactions (uncertainty, frequency, degree of specific assets<sup>i</sup>) as well as the context in which they occur (small numbers, opportunism and bounded rationality) entail transaction costs. TCT proposes three governance structures and contracts to cap transaction costs: the market (classical contract), the hierarchy (personalised contract), or the hybrid form (neo-classical contract). The market relies on free competition to ensure control, the hierarchy

relies on authority (fiat), and the hybrid form relies on long-term contracts. The control modes associated with these governance structures aim to gain efficiency, reduce transactional risk (Dekker, 2004) and protect against the opportunism of exchange partners. Also within transaction view, agency theory raises the problem of the management of opportunism in the context of uncertainty and diverging interests between the parties. Celly and Frazier (1996) have tested the propositions of this theory in buyer-supplier relationships. They show that the more complex the product of the exchange is, the environment uncertain and the supplier difficult to replace, the more the buyer favours control of behaviours rather than control of results.

### **1.1.2. Goals and Modes of Control in the Relational Exchange View**

Scholars of the relational exchange view develop a social conception of exchanges. Based on social exchange theory (Blau, 1964; Thibaut and Kelley, 1959), on Macaulay's seminal study about non-contractual relationships, and on Macneil's work about the distinction between discrete and relational exchange, theorists from the relational view study control mechanisms (generally social ones) that govern exchanges and better the efficacy of inter-firm relationships (Larson, 1992). These mechanisms develop according to different phases (Dwyer et al., 1987). In the beginning, cooperation only concerns risk-free operations and relies on classical contracts. Then, the success of these exchanges encourages the partners to engage in riskier operations and to deepen cooperation. Repeated interactions between individuals lead to the emergence of explicit rules (communication procedures, rules of information sharing) and implicit rules (honesty, openness, equity, reciprocity) that consolidate cooperation (Larson, 1992). These rules are actually relational norms that structure exchanges and provide the required coordination. So, informal control that progressively replace formal devices (Ring and Van de Ven, 1994) are above all a means to achieve common goals in the long term. Firms cooperate to achieve mutual gain rather than behaving opportunistically to satisfy their individual interest alone.

### **1.1.3. Goals and Modes of Control in the Power Dependence View**

Considering that firms are dependent on the environment where they find the resources they need to achieve their goals, some scholars have applied the concept of dependence developed by Emerson (1962) and Blau (1964) in inter-personal context to inter-organisational

exchanges. Pfeffer and Salancik (1978) have developed the Resource Dependence Theory that proposes diverse strategies of adaptation and avoidance given the situations of uncertainty and dependence faced by the organisations. In particular, the authors suggest structuring exchanges by establishing formal or semi-formal inter-organisational links such as contracts, joint ventures, or mergers (Ulrich and Barney, 1984). The response put forward by organisations to the problem of uncertainty and dependence is to stretch coordination with the appropriate partners and to create “negotiated environments”<sup>1</sup>. Here, the organisation’s performance is determined by its effectiveness, whereas the transactional view emphasizes efficiency. In addition, the scarcity of resources does not encourage organisations to get to know each other better or to cooperate in a reciprocal manner, as the relational exchange view suggests, but to develop strategies of influence (or, on the contrary, strategies that limit influence) over the organisations that hold the resources (Oliver, 1990).

Also within the power dependence view, researchers studied the way power may be exerted. Following French and Raven (1959), Frazier and his colleagues study coercive influence strategies –threat, legal argument, promise– and non-coercive influence strategies –request, recommendation, exchange of information– that impact actions (Frazier et al., 1989; Frazier and Summers, 1986).

So, in this view, modes of control (e.g. contracts, coercive or non coercive strategies) aim to limit the influence of the organisations that hold the critical resources or, in the contrary, to exert power on dependent organisations.

Table 1 presents a summary of the three theoretical views presented.

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<sup>1</sup> Term borrowed from Cyert and March (1963).

<i>Views</i>	<b>Transactional</b>	<b>Relational</b>	<b>Power Dependence</b>
<i>Unit of analysis</i>	Transaction	Relation	Organisation
<i>Objectives of the parties</i>	Seek their personal economic interest	Motivation to cooperate and share the benefits of cooperation fairly	Exposure to the demands of those who hold resources and to their coercive influence
<i>Postulates on the goal congruence between the parties</i>	Interest conflicts between the parties	Goal congruence in the long term between the parties	Interest conflicts between the parties
<i>Performance criteria</i>	Efficiency	Developing cooperation and its benefits in the long term shared out according to equity norms	Effectiveness
<i>Control goals</i>	Reducing transactional risks; protecting against opportunism	Strengthening cooperation over time; coordinating joint actions	Diminishing dependence on resources; impacting the partner's actions
<i>Control modes</i>	Different types of contract associated with governance structures (market, hierarchy, hybrid form); offsetting investments; result or behaviour controls	Trust and relational norms (support provided, flexibility, solidarity, information exchange)	Formal links structuring exchanges; more or less coercive strategies of influence

**Table 1: Inter-organisational Control according to the Principal Theoretical Views**

These different views add to the knowledge of inter-organisational control. We suggest integrating their contribution in a conceptual framework based on organisational control concepts.

## **1.2. The application of organisational control concepts to inter-organisational control**

### **1.2.1. Inter-organisational control conception**

Following Flamholtz (1996)'s conception of organisational control, we define the control the buyer exerts on its supplier as the process by which the buyer influences the actions of the supplier to reach its goal. This conception of control entails four ideas. First, control is a

process. Each episode of the relationship (for example each transaction) occurs within an historical and sociological context (contribution of the relational exchange view). Second, the interests of the parties can diverge or converge depending on the situation. Third, control is finalised toward the goals of the buyer. We postulate that the buyer knows its goal. Though it is not always able to give some precise objectives to its supplier, it can give it a direction. Fourth, control can be exerted through formal and / or informal mechanisms. In inter-organisational literature, the relation between formal and informal control is much disputed. Scholars of the transactional view favour a formal conception of control to fight against the opportunism of the partner and to reduce uncertainty. On the contrary, theorists of the relational exchange view suggest that trust and relational norms give the required coordination of exchanges whereas formal control leads to suspicion (Nooteboom *et al.*, 1997). Some others consider that trust and control are complementary to favour confidence (Das and Teng, 1998; Guibert and Dupuy, 1997). We do not favour *a priori* one or the other conception but we will try to observe formal mechanisms as well as informal processes.

Since the conception of buyer-supplier control is clarified, we suggest to expose our conceptual framework.

### **1.2.2. Conceptual framework**

The objective of this research is to study buyer-supplier control configurations that take into account the organisations of the buyers and their goals. We propose to structure our conceptual framework in three points: first, the purchasing environment of the buyer; second its organisation and third, the control process over the suppliers.

#### ***Purchasing environment of the buyer***

The environment of buyer-supplier relationships is often differentiated according to the characteristics of the transactions, the characteristics of the parties or the degree of uncertainty (Langfield-Smith and Smith, 2003; van der Meer-Kooistra and Vosselman, 2000). In the study, we have not opted for categories *a priori* to describe the purchasing environment of the buyer. We will rely on the empirical data to characterise it.

### ***Organisation of the buyer***

Two aspects of the organisation will be studied: the structure of the buyer and the intra-organisational control of the purchasing agents.

The structure can be defined as “a relatively stable allocation of tasks and roles that create a pattern of interrelated activities that allow the firm to conduct and coordinate its activities” (Desreumaux, 1992, p. 50). The structure explains the architecture of the control the buyer exerts over its supplier. In this research, the structural form will be analysed as well as the processes of decision making that can be more informal.

The intra-organisational control of the purchasing agents is defined as the process by which the buyer organisation influences the actions of its purchasing agents to reach its goals. The purchasing agents are key actors of the suppliers control process since their role is to ensure the interface with the suppliers (Ring and Van de Ven, 1994). This is why it seems crucial to understand how their firm controls them (objectives assigned, evaluation of their performance...).

### ***The control of the buyer over its suppliers***

Chiapello (1996) organised the literature on organisational modes of control along several dimensions: the objects of control, its processes, its moments, the means of control and the reactions of the controlled party. Each of these dimensions respond to a question: What? How? When?... However, the dimension “goals of control” (the question Why?) is excluded from the typology. This dimension is fundamental because it sheds light on the strategy of the one who exerts control and gives sense to the other dimensions. In the organisational literature, three main goals of control can be identified:

- Ensure goal congruence between the parties: control aims to ensure coherence and cohesion between the members of the organisation so that organisational goals are achieved. Scholars who have worked on systems of coherence and coordination (Bouquin, 2001; Hopwood, 1974), on integration mechanisms (Lawrence and Lorsch, 1967) or on cohesion in organisations (Pech Varguez, 2003) stand by this perspective. In inter-organisational literature, authors in the relational exchange view stress as well on the importance of the coordination of activities.



- Exert one's power: the one who controls tries to obtain behaviours from others that they would not have had otherwise. With reference to Dahl (1957)'s concept of power, Tannenbaum (1962) suggests that control has a symbolic significance since it implies the superiority of the one, the inferiority of the other, the criticism of the one, the submission of the other... In the inter-organisational literature, to exert one's power is one of the goals of those who stand on the power dependence view.
  
- Reduce uncertainty: control aims to ensure that no bad surprise will occur. Merchant (1982) supports this perspective. Good control is the insurance that the realisations will match up with the plans. In inter-organisational literature, transaction cost theorists and resource dependence theorists propose modes of control that aim at attaining this goal.

These three main goals that are identified from organisational control literature can be compared to those of the three main inter-organisational views. Our organisational conception of control allows us to integrate the different views in our conceptual framework and to study modes of control that respond to one or several goals according to the empirical situations. The modes of control will be analysed according to three dimensions proposed by Chiapello (1996): the objects of control (results, working processes, behaviours, strategic choices), means of control (market, organisation, individual interactions) and the reactions of the controlled party (here the supplier).

## **2. METHODOLOGY**

This research draws from six case studies of French buyer firms. These case studies enabled us to consider complex control processes, to describe the organisation of buyer firms and their goals. Since these phenomena remain largely unexplored, it seemed judicious to carry out a qualitative empirical analysis (Yin, 1989).

Each of the case studies that has been chosen for this research evolves in a purchasing environment that can be described in terms of reciprocal dependence between the buyer firm and its suppliers. A preliminary study was conducted in an automobile equipment manufacturer. The results showed that four types of buyer-supplier relationships (partnership,

market, submission of the buyer, domination of the buyer) could be distinguished according to the reciprocal dependence between the firms. We contacted 13 firms in diverse industrial sectors and conducted exploratory interviews with people from each firm. We observed that 10 of these firms developed relationships with their suppliers that could be mainly classified in one of the four types. According to this type, the organisation of the buyer and the control that was exerted over the suppliers seemed different. Among the ten potential cases, three firms did not wish to take part in further interviews given the time required by an in-depth study. Another firm experienced serious financial difficulties (liquidation), cutting the study short. We therefore possess detailed data on six cases from diverse industrial sectors: automotive (Autoplus and Consauto), aeronautics (Airindustry), pharmaceutical (Pharma), agrifood (Agri) and telecommunication (Telecom).

For each of the cases, we carried out interviews with the purchasing directors and purchasing agents. We questioned them about the environment of buyer-supplier relationships in which their firm evolved. We then asked them to choose the supplier they considered to be the most representative of their portfolio and asked them to comment on the extent of the asymmetry of their dependence and that of the chosen supplier<sup>2</sup>. We questioned each purchasing agent on his expectations with regard to the selected supplier, assigned goals, modes of monitoring, modes of assessment, relational modes, as well as on the reactions and strategies of the supplier. We wanted to focus the interview on one particular relationship so as to avoid commentary on the management control of suppliers in general. In parallel, we interviewed suppliers about the relational modes fostered with the buyer and about the strategies that they implement with regard to the buyer. 60 people were interviewed.

Finally, we consulted and studied internal corporate documents (e.g. supplier follow-up spreadsheet, supplier assessment grids, framework contracts, etc.) and external firm documents (press reviews, financial statements, etc.). All the data was analyzed according to the method recommended by Miles and Huberman (1991). We constructed relevant categories from our analysis of the literature and completed them using field data. The data were coded using the software NVivo, which enabled us to lay down intra-site, then inter-site, matrices in order to draw out patterns of analysis.

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<sup>2</sup> We adopted the scales validated by Andaleeb (1995), Heide (1994) and Lusch and Brown, (1996). The buyer evaluated three items from 1 to 5 (from “do not agree at all” to “completely agree”). We added up the scores to obtain an overall score for each variable. We then re-dimensioned this score on a scale of 0 to 20 using the following calculation: (overall score -3)\*20/12.

### 3. CONTROL CONFIGURATIONS IN BUYER-SUPPLIER RELATIONSHIPS

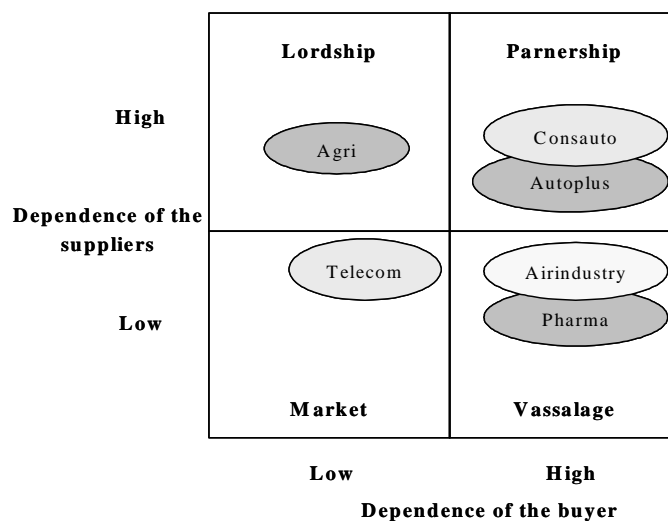
The analysis of the data led us to create a matrix (figure 1) on which cases can be positioned according to the two axes that were identified (dependence of the buyer / dependence of the supplier).

The dependence of the buyer was evaluated according to:

- the concentration of the potential suppliers
- the concentration of the exchanges with the suppliers
- technological, industrial and regulations constraints

The dependence of the suppliers was evaluated according to:

- the concentration of the buyers
- the concentration of the exchange with the buyer

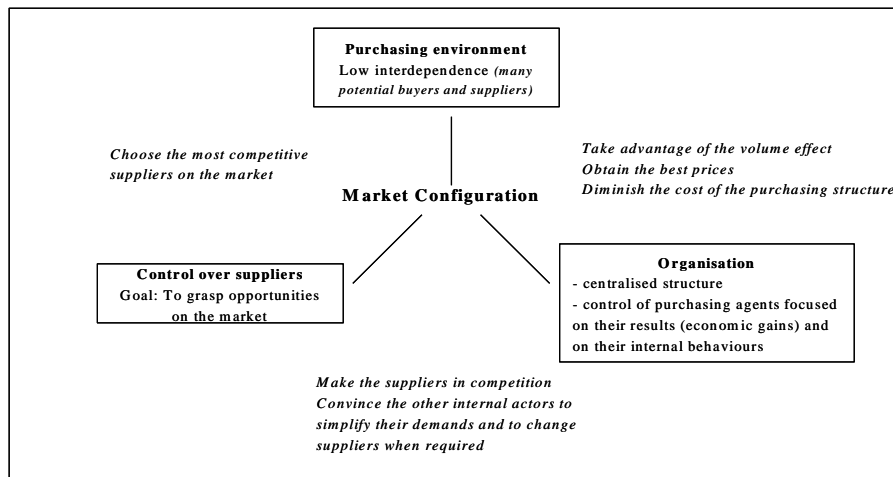


*Figure 1: Position of the cases on the matrix*

Four control configurations in buyer-supplier relationships were identified. For each configuration, we observed coherence between the purchasing environment of the buyer firm, its purchasing organisation (structure and intra-organisational control of the purchasing agents) and control that the buyer firm exerts on its suppliers (principal goal and modes of control).

### 3.1. Low interdependence between the buyer and its suppliers: the market configuration

Figure 2 presents the articulation between the purchasing environment of the buyer firm, its organisation and the control it exerts over its suppliers in the market configuration.



*Figure 2: Market configuration*

#### 3.1.1. Purchasing organisation

##### *The structure*

A buyer is, overall, in a situation of low dependence with its suppliers because it buys standard products that many potentially substitutable suppliers can produce. It has interest to centralise its purchase to take advantage of the volume effect and to diminish its cost of structure (Gadde and Hakansson, 1993). The purchasing structure of Telecom (which is in a market configuration), is actually centralised to the level that is considered to be relevant (the zone or the group).

##### *Intra-organisational control of purchasing agents*

The purchasing agents of Telecom are evaluated on their results, principally in terms of economic savings. Their objectives are clear, formalised, and measurable by the information system. The objectives are the same for every purchasing agent, but the amount of the economic gains depends on the market anticipations concerning the different purchase domains. Another objective assigned to the purchasing agents concerns the logistical performance of the suppliers due to uncertainty on the volumes and industrial constraints of the production units. Purchasing agents have principally a role of rationalisation which consists of reducing costs and rationalising the flows (Gadde and Hakansson, 1993).

To obtain these results, the purchasing agents have to convince the prescriptors (e.g. the engineers of the research units) and the users (e.g. the personnel of the production units) who are their internal client that their choices are relevant. As a result, the purchasing director requires the purchasing agents to adopt certain behaviours (communication, listening of the needs) toward the other internal actors so that they integrate into their global purchasing policy some local preoccupations.

### **3.1.2. Control over the suppliers**

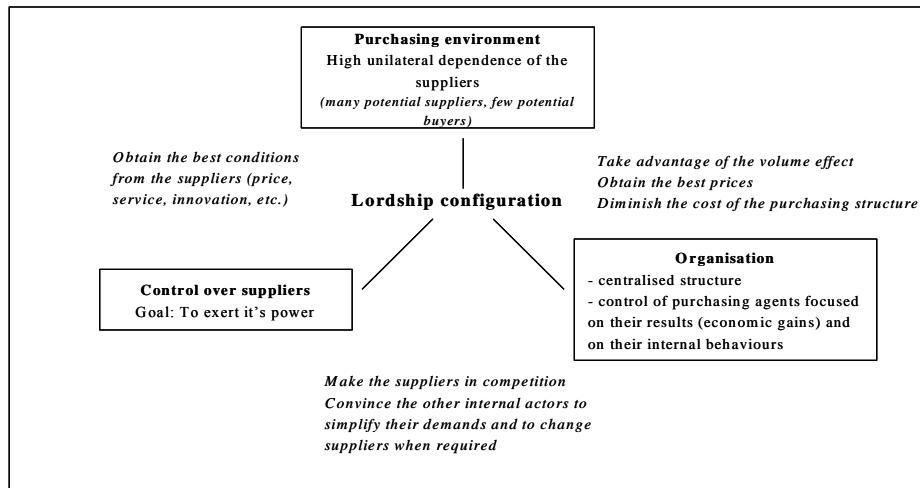
Taken into account the low interdependence relationship between the buyer and its suppliers, the buyer Telecom tries to grasp any opportunity on the market<sup>3</sup> at any time. The characteristics of market control have already been described in the literature (Langfield-Smith and Smith, Van der Meer-Kooistra and Vosselman, 2000): periodical competitive biddings, no detailed contracting, payment based on standardised activities or output. However, our study suggests that organising regular competitive biddings does not mean that the buyer will change from one supplier to another. Threats of production transfer are certainly frequent during the negotiations, mainly for economic reasons, but the putting into practise of these threats seems to be rare. Even when the transfer is possible, the other actors in the buyer firm (prescriptors, users) prefer continuity to rupture of the relationship and they resist the change of suppliers.

### **3.2. Low dependence of the buyer, high dependence of the suppliers: the lordship configuration**

Figure 3 presents the articulation between the purchasing environment of the buyer firm, its organisation and the control it exerts over its suppliers in the lordship configuration.

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<sup>3</sup> This goal did not appear in the goals of control identified from organisational control works. It stemmed back to the empirical research.



**Figure 3: Lordship configuration**

### 3.1.1. Purchasing organisation

#### *The structure*

The purchasing structure of Agri (which stands in the lordship configuration) is, as Telecom's, centralised to the "relevant" level (the geographical zone or the group) so that it can take advantage of the volume effect and diminish its cost structure.

#### *Intra-organisational control of purchasing agents*

The purchasing agents of Agri are evaluated on their results, principally in terms of economic savings. Their objectives are clear, formalised, and measurable by the information system. However, the purchasing agents cannot achieve these results alone. They need that prescriptors (marketing, R&D) to simplify their product and that the users (production units) agree on changing their suppliers if necessary. As a result, the purchasing agents are also evaluated on their ability to communicate within the group, to convince the others of the relevancy and to create an internal network.

### 3.1.2. Control over the suppliers

In light of its favourable position of asymmetrical dependence, Agri seeks to exert its power over its suppliers to get the most out of exchange, in a way similar to a lord exercising his rights over his vassals. This behaviour is consistent with the analyses of Dwyer and Walker (1981), Kale (1986), and Provan and Skinner (1989) within the power and dependence view

and coincides with the postulates of the transactional view: he who holds the power does not hesitate to exploit the relationship and show himself to be opportunistic.

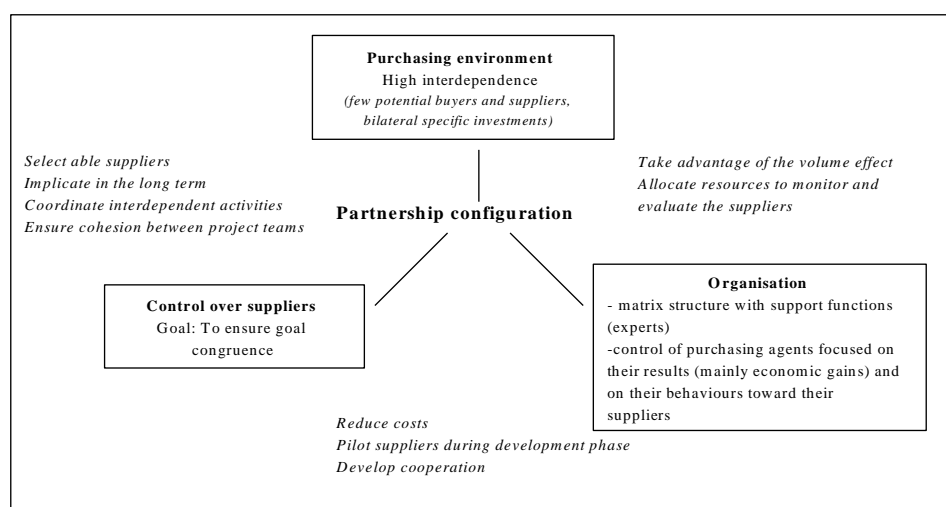
The exercise of power implies a formal control on the results (price, quality, on-time delivery), on working processes, on behaviours, and on strategic choices. Two modes of control are developed in tandem: recourse to the market and organisational control. On the one hand, market is a means to ensure the lowest price (e.g. inverse auctions on the Internet). On the other hand, organisational devices are also developed. Agri regularly redefines goals in terms of price, quality, delivery conditions, and volumes. It also expects suppliers to develop a strategy (in terms of innovation, of production organisation, etc.) in step with its demands and imposes compliance with relational norms in its favour (providing services, being proactive in seeking new sources of productivity, showing flexibility, being totally transparent on the breakdown of costs, etc.). In parallel to the classic process of control (objectives, monitoring, assessment/sanction), Agri is developing a strategy of encroaching its suppliers. It is ensuring that it is treated as a favoured buyer by performing follow-up audits and spot-checks at supplier sites. These devices aim to verify *in situ* the truthfulness of information provided by commercial counterparts (notably information regarding the breakdown of supplier costs, the market shares of different buyers, etc.) and to monitor competition. Agri's encroachment is limited only by its cost (mainly in terms of human resources) compared to the benefits that it may draw from the process.

Agri's suppliers, having few action levers over their buyer, are also developing active strategies to encroach on production units (by being present with operators, workshop supervisors, and directors) in order to develop a network of relationships and favour Agri's relational competencies. They apply themselves to responding as best they can to the concerns of production units while trying to glean information on potential competitors and on new projects for which they could position themselves. Moreover, they emphasize their relational behaviour to foster the buyer's benevolence; they communicate intensively and try to develop good personal relationships with the different Agri counterparts. This supplier strategy of influence is in step with research findings stemming from the relational exchange view: the more individuals communicate, the more trust and relational norms develop, which, in fine, fosters cooperation in the long term and discourages the buyer from threatening its supplier or switching production to other suppliers (Boyle *et al.*, 1992; Joshi and Arnold, 1997; Morgan and Hunt, 1994). However, our observations go further, suggesting that the affective influence of suppliers results from pure calculation on their part. Where the authors of the relational exchange view do not discuss the authentic or calculated character of relational behaviours in

cooperation, and in particular of goodwill trust, we observe, on the contrary, that relational strategies stem from a marked intention that goes far beyond goodwill trust.

### 3.3. High interdependence between the buyer and its suppliers: the partnership configuration

Figure 4 presents the articulation between the purchasing environment of the buyer firm, its organisation and the control it exerts over its suppliers in the partnership configuration.



**Figure 4: Partnership configuration**

#### 3.3.1. Purchasing organisation

##### *The structure*

A buyer is, overall, dependent on its supplier because its demands are too specific to have many potential suppliers (due to the technology of the products, of the processes, due to the required production capacity or international implantation, etc.). A decentralised structure is coherent with this complex type of purchase that is usually specific to a project (or to a business unit). In Consauto and Autoplus (which stand in this partnership configuration), the purchasing structure is effectively decentralised: local purchasing agents are very close to the research units for each project cell. However, to exploit similarities between the projects and to take advantage of the volume effect, the purchasing structure is also centralised. Some global purchasing agents are in charge of suppliers in their domain for the whole firm. This double structural characteristic (centralisation / decentralisation) implies in both cases a



matrix structure. Moreover, to better control their suppliers on different aspects (quality process, cost reductions...), Consauto and Autoplus reinforced this matrix structure with some experts (or support functions) from the purchasing department or those that are detached from other departments to audit the suppliers.

### ***Intra-organisational control of purchasing agents***

In both cases, local purchasing agents are responsible for the operational control of the suppliers. They are asked to implement the monitoring of the risks in the project phase and the monitoring of the results (on-time delivery, quality results, and price reductions) in the production phase. Global purchasing agents are required to obtain price and cost reductions and to ensure the quality of the supply. However, the purchasing agents who are evaluated on the economic results (cost reductions) could be tempted to obtain great price reductions in the short term by favouring very coercive strategies (threatens, sanctions) over dependent suppliers, without taking into account the dependence of the buyer in the long term. To prevent from this risk, the purchasing agents are required by internal directives (in Consauto and Autoplus) to behave positively (to be honest, ethical, to respect their obligations) to limit/reduce risk of their suppliers. Additionally, close attention seems to be paid to any negative information that come from suppliers (complaints, discontents, ...).

### **3.3.2. Control over the suppliers**

In a partnership configuration, the buyer aims to ensure goal congruence with its suppliers. This goal includes the search for coherence as well as the willingness to create a certain degree of cohesion between the teams.

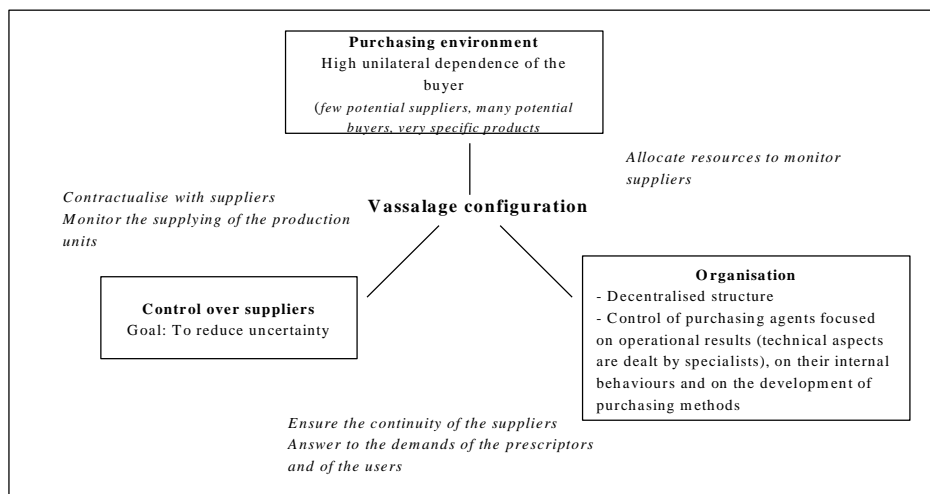
In the selection phase, the buyer exerts an enlarged bureaucratic control over its suppliers on its capacity, on its performance about quality, logistics, industrialisation, international implantation, innovation, strategic choices. The experiences of the relationships and the reputation of the suppliers are taken into account. Selection mechanisms (e.g. numerous audits, evaluation of strategic choices, of the financial health) allow the buyer to better know its suppliers, to be sure that it has appropriate attitudes (in terms of quality approach, production capacity, innovation capacity, etc.) which is, according to Dekker (2004) a means to reduce problems of control and to instill confidence. Selection mechanisms appear in fact to favour *ex ante* coherence between the firms. However, the selection of the suppliers is not a economico-rational process. The choice of the suppliers are interlinked in a political game

between the actors (e.g. between the purchasing agents, the engineers, the project directors) who seem to favour one criterion or another to influence the decision.

During the cooperation, the devices that are designed by the buyer to control its partner are numerous and complex. They are implemented by the different actors of the buyer firm (local, global purchasing agents, experts...). These devices are certainly costly for the buyer firm (mainly in term of human resources) but they may generate direct savings (for example productivity savings gained from the various audits) and indirect benefits (better informal knowledge of the supplier). The implementation of these devices gives the different actors of the buyer firms the opportunity to glean information on the strategy, on the real capacity of the supplier, etc. Moreover, we observed between the project teams relationships relational norms (mainly solidarity, information sharing) and trust-based relationships, which does not exclude conflicts. This confidence atmosphere that stems from the complementarity between formal and informal control seems to favour in fine the inter-organisational cohesion.

### 3.4. High dependence of the buyer, low dependence of the suppliers: the vassalage configuration

Figure 5 presents the articulation between the purchasing environment of the buyer firm, its organisation and the control it exerts over its suppliers.



**Figure 5: Vassalage configuration**

#### 3.4.1. Purchasing organisation

##### *The structure*

As seen before, a decentralised structure is consistent with complex types of purchase (due to the technology of the production, of the processes, etc.), which implies for the buyer to be

dependent on its supplier. This analysis is confirmed by the cases Airindustry and Pharma. However, the parallel centralisation that leads to a matrix structure has not been observed because global synergies between the different business units are considered to be too limited.

### ***Intra-organisational control of purchasing agents***

In the vassalage configuration, purchasing agents' performance is not assessed by the economic savings. These are, anyway, limited since dominant suppliers do not accept decreases in their prices. The purchasing directors' main request from their subordinates is to achieve operational results:

- to ensure the security (in terms of quality and regularity) of the supply of the production units;
- to develop purchasing methods (to design and implement indicators and devices to monitor the performance of the suppliers, to develop internal reporting, to create "decision making aids" )
- to get involved upstream during the development stage phase at the engineers' side.

### **3.4.2. Control over the suppliers**

In light of their unfavourable position of asymmetrical dependence, vassal buyers seek to reduce their uncertainty concerning the quality and the continuity of the supplying by trying to structure their exchanges through contracts. These results are consistent with the propositions of the dependence resource theory (Pfeffer and Salancik, 1978) and those of the transaction cost theory (Williamson, 1985) in situations of high dependency. The suppliers, however, only accept the contracts required by regulation. They reject any mode of incentive, monitoring or sanctioning through contract (no late-delivery penalties or commitments on price...). Airindustry and Pharma have also failed to develop behavioural control (for instance, through auditing processes) as recommended by agency theory whenever the product is complex and uncertainty high. Suppliers refuse all on-site spot checks and other forms of observation that they consider to be intrusive. The only controllable and acceptable elements for suppliers remain the respect of quality and delivery deadlines since these are considered "health factors" of cooperation. To compensate for the lack of formal supplier control tools, Airindustry and Pharma rely on more informal mechanisms. They are seeking to develop good, sometimes even friendly, personal relationships with their counterparts by multiplying the number of contacts, making themselves available, and presenting the prospect of future

cooperation. By doing so, they create the conditions of “affective trust” (Jeffries and Reed, 2000; McAllister, 1995). Thanks to this relational strategy, buyers are attempting to favour suppliers’ commitment, ensure a certain flexibility and continuity of supply, as well as obtain exclusive information on new products, competitors, and even sometimes cost structures.

## CONCLUSION

In this research, we have attempted to study the control that buyers exert over their suppliers according to the characteristics of the purchasing environment of the buyer. Four configurations have been identified. For each one, the buyer organisation (in terms of structure and intra-organisational control of purchasing agents) and the control over the suppliers are consistent with the purchasing environment of the buyer firm. The Table 2 presents a synthesis of the results.

CONFIGURATION		MARKET	LORDSHIP	PARTNERSHIP	VASSALAGE
<b>Purchasing environment of the buyer firm</b>		Low interdependency	Unilaterally low dependency of the buyer	High interdependency	Unilaterally high dependency of the buyer
<b>Organisation of the buyer firm</b>	<i>Structure</i>	Centralised	Centralised	Matrix with experts in support	Decentralised
	<i>Internal control over the purchasing agents</i> <i>On their results</i>	Economic savings	Economic savings	Economics savings	Operational results (quality, on-time delivery)
	<i>On their behaviours</i>	Internal	Internal	Toward the suppliers	- Internal - Purchasing methods
<b>Control over the suppliers (principal goal for the buyer)</b>		To grasp the opportunities on the market	To exert its power	To ensure goal congruence	To reduce uncertainty

**Table 2: buyer-supplier control configurations**

For each configuration, a principal goal for the buyer firm has been identified and gives sense to the modes of control that are designed and implemented: the lord buyer aims to exert its power; the partner buyer seeks to ensure goal congruence with its supplier; the vassal buyer tries to reduce its uncertainty; and the market buyer aims to grasp any opportunity on the market. This latter goal did not appear in the initial typology of control goals. It is particularly adapted to the outsourcing context since it implies market control. It may also be relevant in an organisational context. Some devices already aim at attaining it (for example benchmarks,

the SWOT devices, the balanced scorecard) although the theorists in organisational control do not explicitly express it. In this perspective, the control system can be considered as an alert system which is turned to outside (i.e. the environment) and not to inside (i.e. the internal organisation) so that managers be able to grasp the best opportunity of their environment.

Moreover, by studying the organisation of the buyer firms, we observed that many internal actors are concerned with buyer-supplier relationships. The interests of these actors are not necessarily converging: purchasing agents are often interested in prices (according to their objectives), prescriptors (development engineers) seem to lay stress on technology and personnel in production units prefer to ensure the quality of the supply. Thus, a transfer of production that would be economically relevant can be hindered because the engineers or the personnel of the production units refuse it. As a result, the strategy of the suppliers is to cosy up the different department of the buyer firm. They create the conditions of an affective influence on these actors. To better understand this form of supplier control over buyers and the complexity of the internal coordination in buyer firms, it could be interesting to deepen the study of buyer organisations. Similar research could also be conducted on supplier firms.

Finally, we based our methodology on case studies in order to analyze a phenomenon that remains mostly unexplored. This choice entails the limitation of having findings that are singular and cannot be generalized. We envisage putting these initial findings (or a part of these findings) to the test on a broader population.

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<sup>i</sup> A specific asset is an asset that cannot be redeployed to alternative use without sacrifice of productive value.