Hybrid buyer–supplier relationships in global electronic markets

Craig Standing a,⁎ Rosemary Stockdale b, Peter Love a

a Edith Cowan University, 100 Joondalup Drive, Joondalup 6027, Australia
b Rosemary Stockdale Information Systems, Institute of Information and Mathematical Sciences, Massey University, Albany, New Zealand

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Abstract

Research on the mechanisms for conducting business with suppliers has traditionally centred on the nature of arm’s length and embedded relational models. While such models provide a basis for understanding market and closely integrated approaches to supply chain management it has been recognised that a variety of hybrid models occur in practice. This paper identifies and examines a hybrid model of buyer–supplier relationships that forms part of a portfolio of relationships managed by a large Australian organisation. The hybrid model takes a local community perspective within a market based mechanism. The characteristics of the hybrid model are underpinned by the motivation to maintain goodwill in the supplier community and employ a global competitive electronic marketplace for procurement. Strategies to manage local suppliers and consideration of their role and standing in the local community are important factors that large organisations need to incorporate in hybrid procurement arrangements.

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Keywords: Electronic marketplace; Buyer–supplier relationships; Procurement

1. Introduction

Buyer–supplier relationships have been theorised in terms of arm’s length and embedded relationships (Uzzi, 1997). Loose collections of companies that maintain impersonal
and shifting exchange ties are characteristic of arm’s length relationships and markets (Powell, 1990). At the opposite end of the relationship continuum are stable networks that maintain close social ties termed embedded relationships. This model has been accepted in much of the debate on the use of information technology to support these relationships (Schultze & Orlikowski, 2004), although increased attention has been given by researchers to alternative relational forms (Baker, 2002). This paper examines a particular type of buyer–seller relationship that serves the needs of local constituents and can be viewed as a hybrid relationship model. The research purpose is to identify the characteristics and benefits associated with hybrid models that consider local constituents. Within this context our main research question is: How can a large company effectively involve local suppliers within a global procurement system?

The motivations for answering this question are related to the problems faced by large companies that wish to take advantage of global procurement systems but avoid alienating local suppliers. For most companies it is important to maintain some local suppliers, firstly, because of the speed with which deliveries of products or parts can be made or services provided for time critical purchases and secondly, to maintain socially responsive practices that support business in the local community. Although the literature has examined the benefits of electronic marketplace participation, few studies have examined the strategies and complexities of maintaining a supportive local supplier culture when adopting a global procurement platform. If a company does not address this local/global challenge with effective strategies then it may lose goodwill in the local supplier community that could result in a lack of cooperation related to the supply of critical goods and services. From a broader community perspective a loss of goodwill can result in difficulties related to obtaining planning permission, trade union support or government subsidies.

There is a danger when implementing global procurement platforms that the wider organizational implications are overlooked. The adoption of global e-auctions is a highly strategic venture where the corporate social responsibilities need to be considered. Corporate social responsibility (CSR) is almost universally adopted by senior managers as an integral part of their executive roles, and can be motivated by self-interest, altruism, strategic advantage or political gain (Pearce & Doh, 2005). The debate on CSR centres around how a company can benefit society beyond the direct interests of shareholders? Some companies have focused for example on the support of community groups, approaches to the environmental issues and ethical marketing (Maignan & Ferrell, 2004). The role of electronic marketplaces and how they can be used to support local suppliers is also an issue of similar significance.

2. Network relations

The benefits of hierarchy and market mechanisms for conducting business activity have been extensively debated from an economic perspective (Malone, Yates, & Benjamin, 1987; Williamson, 1975). The development of information technology has been viewed as a primary factor in the reduction of transaction costs and one which allows for a greater number of suppliers in electronic markets (Malone et al., 1987). Transaction costs are the costs associated with finding someone with whom to do business, reaching an agreement about the price and other aspects of the exchange, and ensuring that the terms of the agreement are fulfilled (Williamson, 1975). Electronic markets (e-market) have the potential to streamline and manage these activities. Moreover, they can reduce the transaction
costs associated with conducting business compared with hierarchies where a company has to manage its suppliers and procurement processes (Malone et al., 1987). It has been acknowledged, however, that market efficiencies may be related to certain types of non-recurrent transactions (Glassberg & Merhout, 2007; Williamson, 1979).

The ‘move to the middle’ hypothesis of Clemons, Reddi, and Row (1993) advocates foregoing the advantages of the market in favour of transactional economies of scale and closer, low-risk relationships. Smaller tighter networks offer advantages in innovation, adoption of new technology, quality, information exchange, trust, flexibility and responsiveness (Bakos & Brynjolfsson, 1993; Dwyer, Schurr, & Oh, 1987). In a close relationship the buyer concedes bargaining power to gain more intangible benefits, while the supplier feels safer in offering more non-contractible investments to a buyer that shows commitment to the partnership (Bakos & Brynjolfsson, 1993). Even though there are benefits to be gained on both sides of the partnership, there is usually a degree of asymmetry in dependence with suppliers often exhibiting a greater need for continuity (Bakos & Brynjolfsson, 1993; Cannon & Perreault, 2002; Heide & John, 1990). Buyers may pursue a course of self-interest to maximise profits and may form partnerships of varying degrees of closeness according to their procurement requirements and the quality of supplier performance (Cannon & Perreault, 2002). If the buyer attempts to rule the relationship and dictate performance the supplier will not develop trust in the partnership and collaboration is unlikely to develop (Spekman, 1988).

Grover, Teng, and Fiedler (2002) contend that the use of transaction cost theory (TCT) to explain inter-organisational relationships has under emphasised the role of social factors. The social component determines the boundaries and expectations that are part of a long-term relationship. Trust is defined in terms of acceptable levels of opportunism and cooperation (Dyer & Singh, 1998). Grover et al. (2002) use the term relationalism to define “an implicit contract, not legally binding, that has a reciprocal expectation” (p. 220).

A number of features of socially embedded (Granovetter, 1985) and arms’ length relationships have been identified (Fig. 1) (Hansen, 1999; Schultze & Orlikowski, 2004).

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Fig. 1. Types of network relations (Schultze & Orlikowski, 2004).
Socially embedded relationships are characterised by close relationships with a small number of suppliers and rely on informal contracts and a high degree of social and personal interaction (Schultze & Orlikowski, 2004; Uzzi, 1999). Uzzi (1999) used a list of features and functions to assess embeddedness in firms (Fig. 2) and these include contractual formality, levels of trust, levels of reciprocity and opportunism price and quality. On the other hand, arm’s length relationships are characterised by formal contracts, are more impersonal and involve the exchange of public knowledge and information (Hansen, 1999). The structure of liaison brokerages or intermediary e-marketplaces where there are no allegiances between participants can be classified as arm’s length relationships (Schultze & Orlikowski, 2004). In an analysis of the adoption of an e-marketplace in the Australian beef industry it was found that social and political factors also played a significant role in determining levels of adoption (Driedonks, Gregor, Wassenaar, & van Heck, 2005). In particular, Driedonks et al. (2005) found loss of social capital, the nature of industry supply chain communication channels, and not recognising power brokers in the supply chain all had an impact on adoption and the success of the e-marketplace.

Obtaining significant benefits from e-marketplace participation is a complex task (NeRPA, 2006; Standing, Love, Stockdale, & Gengatharen, 2006). Many firms find it difficult to assess the potential benefits, costs and risks of participation during the e-marketplace selection process and also during participation (Standing & Lin, 2007). It has been acknowledged that decisions in the B2B arena are usually more complex than in the business to consumer (B2C) arena where decisions are more likely to be based on price and transaction costs. Trust, frequency of the transaction, complexity of the transaction, firm reputation, managerial skill, service, delivery scheduling and switching costs are some of the factors that make strategic decisions on firms’ participation in B2B e-markets more difficult (Glassberg & Merhout, 2007).

Bensaou (1999) classified buyer–seller relationships as underdesigned relationships when requirements are not formally specified but there is a need for clear guidelines and information exchange. Overdesigned relationships are characterised by investment in trust building, frequent visits and cross-company teams when the product and market

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Fig. 2. Features and functions of exchange for arm’s length and embedded ties (Uzzi, 1999).
context calls for simple, impersonal control mechanisms. Both undersigned and overdesigned relationships are likely to lead to relationship failure or at least significant problems.

Although the typology of network relationships (Fig. 1) can be used as a basis for understanding mechanisms for procurement, it has been increasingly recognised that organisations are engaging in forms of inter-organisational activity that neither resemble arm’s length nor embedded ties (Baker, 2002; Powell, 1990). Some of these are considered new organisational types (Powell, 1990) rather than hybrids on the market-hierarchy continuum (Williamson, 1991). Others such as Bensaou (1999) have noted that hybrid relationships reflect the complexities of inter-organisational relationships. In reality organisations may have both mechanisms operating and companies that enjoy an embedded relationship for some products may have to compete in auctions for other contracts (Uzzi, 1997). Hybrid relationships can form part of portfolio approaches to buyer–supplier relationships (Bensaou, 1999) in environments where buyer–supplier strategies are constantly evolving (Ahmadjian & Lincoln, 2001).

The theory of network relations is a way of describing a contract between two firms but a company adopting global auction mechanisms has also to consider its reputation within the supplier community and potentially its standing in the local community (Schultze & Orlikowski, 2004; Uzzi, 1997). These issues need to be resolved at senior levels within organisations and also have to be reconciled at an operational level by procurement staff making decisions on whether to award a contract to a local or international company. In such an environment, factors other than the lowest price may need to be considered since a purely economic perspective may ignore local constituents and local community issues.

An in-depth longitudinal case study is used to investigate the characteristics of a hybrid model of inter-organisational relationships developed by a large company when adopting a global procurement strategy. The research traces the experiences of Caradon, a large Australian mining company, in its adoption and use of a global e-marketplace. Caradon’s overall strategy was driven by the potential of economic benefits but relational issues that impacted on the realization of these benefits became more obvious as their use of the e-marketplace progressed. The impact on local suppliers and the company’s role in the local community became increasingly problematic. Over a two-year period the company worked at developing a hybrid model that allowed them to balance the local and global procurement dichotomy.

The case study provides two main contributions to the literature on relational aspects of e-marketplace adoption. First, it identifies and examines a hybrid model of organisational relationships that can be used to manage local supplier relationships. Adoption of global e-marketplace systems for many companies involves a shift from close relationships with a relatively small number of suppliers, many of which are locally based, to a much wider supplier base spread across the world. Caradon adopted a global e-marketplace that impacted significantly on its existing relationships with local suppliers and it developed strategies to mitigate some of the more problematic issues. Second, the paper explores the challenges faced by large companies adopting global procurement systems in terms of managing perceptions in the local community. Adopting a global e-procurement strategy can have major implications for a large company that has a vital role in the local community as a procurer of goods and services. Caradon had, as part of its mission, a requirement to support the local community and hence the decision to adopt global e-marketplace trading had political implications for the company in terms of its role in the local
community. We argue that these two main contributions are closely interwoven around the relational challenges of adopting a global e-procurement platform. Although economic benefits may act as a driver of e-marketplace participation, in the transition to a global arena a company has to develop a strategy that defines how the change will impact on its role in the local community and its relationships with existing suppliers. The outcome of the research is the explanation of a hybrid model of supplier relationships that can be used by large companies to address the negative impact of global e-marketplace platforms on local constituents.

3. The research study

When considering the relational implications of global electronic markets, the array of influences in multiple contexts must be an integral part of the research. This enables examination of not only the fact that people communicate, but also how and why they communicate; the context and process of influences (Walsham, 1993). We believe that the need to examine the multitude of influences within the research study requires an interpretive approach.

An interpretive research approach assumes that our knowledge of reality is gained through social constructions and phenomena are understood through the meanings that people assign to them (Klein & Myers, 1999; Orlikowski & Baroudi, 1991). Within the philosophical approach of interpretivism we have taken the theoretical perspective of hermeneutics to underscore the realization of understanding through the iterative nature of the research. The iterative nature of hermeneutics “fosters comparing and contrasting divergent constructions in an effort to achieve a synthesis of same” (Schwandt, 1994) and allows for differing opinions, both subjective and objective, within the organisation. This also accords with Klein and Myers’, (1999) fundamental principle of the hermeneutic circle which they see as a foundation to interpretive based research.

The theoretical framework of network relations is used with the case study in two ways. Firstly, we generalise from the theory to the case study description (Lee & Baskerville, 2003). This involves generalising from theoretical statements to empirical statements. In this way we can examine the gaps in the theory, where the theory applies or doesn’t apply in practice and so identify the contribution of the case. Within the broad relational theory used to structure the interviews and findings we also allowed the response themes to emerge so in addition there were some generalisations from description to theory (Lee & Baskerville, 2003). This cyclical analysis of data is characteristic of the hermeneutic approach.

4. The case study organisation

Western Australia provides an ideal background to study the impact of global e-marketplaces in that it is geographically remote, culturally diverse, technologically advanced and has extensive trading links from its export of raw materials and agricultural goods. Western Australian organisations have potentially much to gain from participation in global electronic marketplaces in relation to the extension of supplier bases and new export markets.

We selected Caradon (a pseudonym) as the case study organisation for three main reasons. It is part of a multinational organisation that operates in a global environment and is
therefore likely to be familiar with at least some globalization issues. It is a major representative of the mining industry, one of the premier industries of the region, and is important to the region’s economy. Finally, Caradon has a history of innovative strategies and is fully committed to developing its online business environment, including its procurement function. We had the opportunity to begin the research as participation in an electronic marketplace was at the planning stage.

Caradon is a large Australian mining company, with its headquarters and several remote industrial sites located in Western Australia (WA). Its US-based parent organisation employs over 100,000 people worldwide and had revenues in excess of US$16 billion in 1999. Mining plays a vital part in the Australian economy accounting for more than 60% of the country’s commodity exports (Subhabrata, 2000). Caradon, as one of the largest mining companies, makes an important contribution to Australia’s balance of payments and is a major industrial force in the State of WA.

Caradon has strong commitments to the local communities within which it operates and has a business policy of using local suppliers ‘where possible’. The organisation is committed to making full use of e-commerce and has successfully implemented a number of Web-related supply chain initiatives. In keeping with its commitment to innovation and to relieve economic pressures following a downturn in world metal prices, the organisation has turned to a global electronic marketplace for many of its procurement needs.

The study focuses on Caradon’s procurement department for operational supplies and capital expenditure where the staff is responsible for implementing the move to an e-marketplace environment. Although the organisation is currently working with a horizontal e-marketplace, procurement officers have been seconded to an industry-specific marketplace in which Caradon has interests and intends to participate in ‘in the near future’.

The e-marketplace used offers a global auction capability for client multinational organisations and also software tools to enable clients to set up and run their own auctions, hosted by the e-marketplace company. The marketplace supports the running of major online reverse auctions and guides the buyer organisation through the auction process. They have a large supplier database and contribute significantly to identifying, inviting and training appropriate suppliers for the auctions.

4.1. Data collection and data sources

A wide variety of data sources have been accessed to enable issues to be set in context, with due regard to historical perspective and the macro environment (Crotty, 1998; Klein & Myers, 1999). These sources are documents, archival records, interviews, direct observation, participant observation and physical artefacts (Yin, 1994). The emphasis has been on interviews as the primary data source (Walsham, 1995).

We have maintained an observer role and have not participated in discussions within the organisation. We have, however, been aware that our presence has altered the nature of some of the comments made, and this is where body language and researcher impressions have been invaluable. This has been supported by the slight changes in attitude in subsequent interviews where observations have become more unguarded as trust has been established over a period of time; a facet of case study research observed by Walsham (1995).
5. The interviews

Interviews were conducted with Caradon staff over a two-year period. A longitudinal approach to the research study enabled the identification of issues, key events, attitudes and responses closer to the time they occurred rather than relying on participant recall. Although the majority of interviews were conducted in two rounds other interviews were conducted with the senior staff at the planning stage (2 senior staff) and at the end of the study (6 senior staff). Twenty three in-depth formal interviews of between 45 and 95 min were conducted in the two major rounds of interviews with Caradon’s staff. These included the purchasing manager, the procurement manager and eleven of the organisation’s procurement officers. In addition, we interviewed two supplier organisations and two e-marketplace representatives. The formal interviews were supplemented with many less formal interactions, meetings and discussions. In summary, the formal interviews conducted over a two-year period included the following:

- Interviews with purchasing and procurement managers (2 interviews).
- First round of interviews included purchasing manager and procurement manager and 11 procurement staff (13 interviews).
- Interviews with supplier organisations and e-marketplace representatives (4 interviews). The two supplier organisations that were chosen had voiced some concerns over the transition to the e-marketplace.
- Second round of interviews included purchasing manager and procurement manager and 8 procurement staff (10 interviews). Three procurement staff from the first round of interviews were unavailable.
- Concluding interviews with 6 senior staff (6 interviews).

The repeated interviews enabled the researchers to investigate the stages of development that Caradon experienced. These stages were further discussed with senior staff at the final interviews at the conclusion of the data gathering.

A list of potential interviewees (procurement staff) from the procurement department was given to the researchers by the researchers’ liaison officer (a volunteer from the department) and by the procurement manager. The researchers requested interviews with all the senior procurement staff, a range of other procurement staff that was responsible for using the auction system and dealing with local supplier. In addition, two supplier organisations and e-marketplace representatives were included to provide a wider system perspective. Two people declined to take part in the study, but it was not possible to ascertain why. The researchers arranged the external interviews directly with the interviewees. The interviews were conducted on site at the head offices and at three remote sites within WA. The interviews were recorded and transcribed verbatim to allow for nuances in the interview to be apparent in the text. The interviewees’ details were coded to allow for anonymity, although all interviewees were aware that it might be possible to identify them from the content of the text.

The interviews were structured according to the network relation constructs identified in the literature (see Figs. 1 and 2). These centred on changes in inter-organisational relationships from both an economic and a social perspective (Grover et al., 2002), brought about by participation in the electronic marketplace. Interviewees were encouraged to reflect on adjustments in personal interaction between procurement staff, suppliers, and internal customers and on resulting changes in work practices.
In addition to the interviews a number of other company specific data sources were used. These included company reports, business association reports, e-mail correspondence and attendance at meetings and conversations with the procurement staff and e-marketplace representatives over a two-year period. The use of a broader range of data sources, such as newspapers, government reports and mailing lists, enabled influences from the macro environment to be addressed. These data inform the wider societal context that is increasingly recognised as essential to the role of information systems in organisations (Scott & Walsham, 1998; Trauth, 2000).

6. Data analysis

We carried out the data analysis as an ongoing process throughout the period of the research. We attended meetings as observers between the procurement staff and the e-marketplace representative and also maintained informal contact with the key procurement staff tasked with the adoption of the e-marketplace. The interviews were taped and we transcribed them verbatim, adding supporting additional comments from notes taken during the interviews.

We transcribed the second round of interviews without reference to the categories developed the previous year for the earlier interviews. The subsequent comparison between the developed themes allowed for a re-analysis of both sets of data and enabled contradictions and changes in attitudes to be identified. We used the additional data sources to support this re-analysis. For example, there was some correlation between environmental and health and safety issues within the local community, (reported in the State’s newspapers), and Caradon’s approach to its local supplier base.

Another factor that we believe to be of importance in an interpretive case study is the use of context to inform the analysis, summarized concisely by Klein and Myers (1999) as the Principle of Suspicion. Any data source is subject to a variety of interpretations, and interviewees are often influenced, consciously or unconsciously, by their beliefs, loyalties and preferences. In the remote environment of WA, where relationships are close and of long standing, it was necessary to take a critical perspective of the statements made by interviewees. This allowed for the recognition of possible distortions caused by ‘the social world behind the world of the actors’ (Klein & Myers, 1999, p. 78). The loyalties of those interviewed lie not only with their own department but in many cases with their long-term suppliers. Their statements and actions were made within this context, with negatives from the global trading experience often attributed to outsiders of this local scene.

7. Findings

The findings are organised according to the main constructs of the network relations model in Fig. 1. These are assumptions about frequency of interaction, expectations of interdependence and reciprocity, norms of interpersonal interaction, protocols around type of information exchanged, forms of inter-firm governance.

7.1. Assumptions related to interactions

The adoption of the e-marketplace for procurement created a more competitive approach where all contracts could be scrutinised in a more objective manner to determine
what was most effective from Caradon’s perspective. Previously, contracts had been renewed with local suppliers without thorough examination and this led to supplier complacency and deviations from Caradon’s original requirements. Although the driving aim was not to put pressure on local suppliers it was recognised that inefficiencies existed in contracts with local some local suppliers.

Our adoption of a global procurement strategy was a radical shift that we implemented to reduce the costs of procurement. We had a system where contracts with suppliers had just been rolled over year after year and this created a lot of inefficiencies and expense. The e-marketplace forced a more detached approach where each contract could be reviewed on its merits. It would be more competitive in a sense with no guarantees of renewal. Perhaps we underestimated the impact it would have on local suppliers. The local supplier issues needed to be considered as we couldn’t ignore them otherwise it would have been disastrous for the company and the local business community. (Procurement Manager).

The impact of the decision to adopt a global auction mechanism had far reaching implications for Caradon’s relationships with its suppliers. The shift from maintaining a service relationship to a service encounter with no guarantees of renewal came as a shock to many suppliers. In the early stages of adoption there was suspicion on the part of some suppliers that Caradon was acting purely out of self-interest with the aim of increasing competition between suppliers and lowering the cost of goods. One supplier was clearly annoyed by the decision and felt it had ruined the trust that had taken years to develop even though two contracts were still held that were unlikely to be auctioned in the future.

Why a level playing field should be presented to a range of competing suppliers with no regard for previous service to Caradon. The relationship has been destroyed and Caradon is abusing the system. (Supplier CEO).

When the on-line auctions started to be used a number of local suppliers lost contracts. Caradon packaged smaller contracts together to make it more economical to put them to auction. This resulted in some smaller companies that did not have national coverage being unable to compete with larger companies for the newly offered contracts.

The market out here for transport is controlled by a small number of companies that can handle interstate transport. We lost a lot of the smaller, very good transport operators in the individual states. It was too big for them because they weren’t represented in one of the other states. (Buying Officer).

Some suppliers did not like the change to a competitive arena and some refused to take part in the on-line auctions. The example, below highlights how one company eventually accepted the new procurement conditions and adopted a very competitive strategy after initially rejecting the offer to compete for a contract. They adopted a win at all cost strategy without regard of whether it would be financially viable.

The incumbent elected last time not to bid on this particular piece of equipment because they didn’t want to know about FreeMarkets. They came back afterwards and said they’d like to be included on the next one. The company that won the last one and this incumbent company were just going hammer and tongs. But it wasn’t
about the making money out of it. It was a case of winning no matter what cost, even if they lost money. You can see this by actually watching the bids. (Buying Officer).

7.2. Expectations of interdependence and reciprocity

Procurement staff at Caradon realised that local suppliers would always be important for some goods and that they could not afford to alienate them. For example, local suppliers are important because they can deliver parts for machinery quickly which means there is less down time on expensive plant. This was recognised in the planning stages but just how problematic it would be was never fully appreciated. Caradon realised they had to move to the e-marketplace to be globally competitive but the emerging issue arose of how to facilitate the transition for their local supplier community. Their partial dependence on some local suppliers is exacerbated by the remoteness of Western Australia. The following buying officer explains the importance of obtaining parts for machinery quickly and uses the example of Waroona which is two hundred kilometres from the State capital Perth. The nearest major cities to Perth, Western Australia, are Adelaide, Melbourne and Singapore. These are all several thousand kilometres in distance from Perth. To obtain machine parts from these cities (and these are examples of the closest cities) would require them to be flown in to Perth and then transported by road to Waroona. This transportation process is likely at a minimum to take two days but could blow out to three or four days. A local supplier in the Perth Metropolitan region could have it delivered by road within a day. Global suppliers can compete for contracts where there isn’t a time critical dimension such as with buying energy supplies (gas and oil) or new machinery, vehicles or tyres.

We are remote! Transport and getting goods and services provided to the locations is not as easy as other parts of the world. We can have all the technology we want, but the fact is the Waroona store is a couple of hundred kilometres from Perth and Perth is thousands and thousands of kilometres away from the rest of Australia and the rest of the world, so we’re fairly isolated and that distance doesn’t go away. It doesn’t get any shorter. Transactions can be quicker but getting goods from one place to another doesn’t get any quicker. You have a breakdown, a major breakdown, a missing part of a piece of equipment. It doesn’t matter what technology you’ve got if you can’t get it to the site. (Buying Officer).

Prior to the adoption of the global trading platform there had been a high degree of reciprocity between Caradon and its suppliers. Very often suppliers would take on extra work at short notice or provide additional levels of service because they knew that Caradon would do the same for them if required. Caradon staff also felt a sense of regret and nostalgia for the close relationships developed over-time with local suppliers but they recognised the need to be globally competitive.

There have been many occasions when suppliers have needed extra time to complete an order or they needed additional expertise from our side to help them complete it. We were in a give and take type of relationship and this served everyone’s interests pretty well most of the time. Under the new system none was quite sure at first how to deal with local suppliers. We have had to be flexible and understanding of the local needs, it’s in our own interests too. Yet at the same time, we can’t go back
to the old way of doing things as this was often inefficient. What we have developed is a type of hybrid electronic market that sources globally but incorporates the local suppliers. It’s not just a case of making a few rules up, it is a sophisticated system to balance the needs of local suppliers, and the need for local suppliers with the need to move to a global procurement platform. (Caradon Procurement Officer).

It was recognised that the new ‘hybrid’ model would not be able to incorporate fully embedded relationships with local suppliers. There would be some interaction with them but generally there would be a need to be efficient in the management of supplier relationships. Defining procurement policies to guide decision making evolved throughout the adoption process. Initially, the lack of detailed policies was a problem and caused some confusion for procurement staff but as time progressed more explanation and policies were provided by senior management.

We had to do something as many of our past contracts were not efficient and they were frequently rolled over and this led to further inefficiencies. The new approach takes a middle ground for local suppliers. Yes, there is some interaction but they cannot rely on favours or on goodwill alone. They have to get the contract on merit but at the same time allowances are made. It’s really quite complex and some would say a subjective process in making these decisions on how important it is for a contract to go to a local versus an international supplier. (Procurement Officer).

7.3. Norms of interpersonal interaction

The norms of trust and goodwill that existed prior to the adoption of the e-marketplace were obviously strained by the change. It was felt that the loyalty that had evolved over years of interactions counted for very little. These early stage reactions demonstrate that the new arrangements were threatening for suppliers. Caradon was taken by surprise by these reactions since they did not want to antagonise the local supplier base.

Suppliers often thought the e-marketplace was adopted to create competition and drive prices down. When a supplier did not have the lowest bid in an auction it automatically assumed it had lost the contract. According to Caradon a range of other factors were taken into consideration because they wanted to support local suppliers where possible because they recognised the company should be acting in a socially responsible manner. These factors developed in clarity as their use of the e-marketplace progressed.

The companies that were doing the bid, they all thought, they just assumed that as soon as the bid was over and done with, the decision was made. We’ve always said no, it’s not only about who comes in with the lowest price. (Purchasing officer, head office).

Caradon has a business code promoting support of the local community and as a consequence the ‘best price’ is sometimes disregarded in favour of a socio-political decision to maintain local contracts. Caradon is balancing its need to reduce costs in a globally competitive market environment against its need to maintain the organisation’s reputation within its regional community. How Caradon is perceived within the local community is vitally important. As a large organisation, Caradon’s procurement involves significant contracts for many local businesses. As a mining company, Caradon also needs to
maintain good relations with the Government and the wider community. It is important for Caradon to be well perceived in the community particularly when environmental issues resulting from metal and mineral processing figure strongly in the regional press.

To counter some of the adverse effects of extending its supplier base outside the region Caradon has renewed some smaller local contracts, disaggregated some larger contracts to enable cooperative bids from smaller suppliers and encouraged larger suppliers to extend their markets overseas. In the last case a long-term supplier, affected by Caradon’s e-marketplace participation, was given extensive encouragement and support to bid in and win an overseas auction. There was a personal element involved in this support with procurement officers endeavouring to compensate a business partner for the result of actions taken at senior management level.

Factors other than economic were considered in the awarding of contracts through the on-line auction process. Caradon’s distributed operations impacted on the well-being of smaller communities. This required sensitivity in relation to local versus global issues since economic pressures were compelling Caradon to source globally but at the same time the importance of its role at the local level could not be ignored. Caradon is major mining company that has a significant impact on the communities and towns where its sites are based.

We deal with people not just from an economic perspective, but from a social, economic and political perspective. You can’t have a large industrial site in a small country town and not expect to interface with any of the local businesses. We have a situation here where a person has built his whole business around his contract with us and you can’t sit there and say that’s not Caradon’s problem. The dilemma at the end of the day is that Caradon will be the one that’s seen as the bad guy if we select an international company. (Site purchasing officer).

The political issues were not only apparent in relation to local communities but also in relation to the region as a whole where the presence of goodwill is important. Caradon was planning to expand its refining operations in Western Australia and to achieve this it required State government support and support from community organisations.

It requires careful handling to maintain goodwill within the region. You have to be upfront and honest. Western Australia is a remote region with a certain number of business players and honesty is the only way you will retain goodwill, especially in the current environment. (Buying officer and Bid Team Member).

The on-line auctions made the price disparities between bidders highly visible. This put additional pressure on suppliers to be more cost competitive. When a considerable margin exists between a company’s bid and the winning bid it may be a signal that a company is not efficient and globally competitive. Caradon started to see their role as encouraging suppliers to become more globally competitive. As Caradon reached a more mature stage of e-marketplace use they realised that global procurement was a competitive necessity and that they were doing the local business community a service although some suppliers had been unwilling to recognise this. Suppliers were encouraged to see the bigger picture and the e-market transition as beneficial.

There is nothing worse than not knowing what the rest of the market is doing and in 5 years time finding out you have to shut your business because you weren’t able to
keep up with training that’s required. So this gives them some early warning around what’s happening in the global marketplace. (Purchasing Manager).

As Caradon gained more experience in the e-marketplace they internally clarified their decision making on awarding contracts. Factors that were considered were:

- switching costs incurred in moving from incumbent suppliers;
- Caradon’s commitment to local suppliers;
- perceived ability and reputation of the supplier to fulfil requirements of contract with regards to quality, reliability, safety, etc;
- viability of the auction price, where a supplier may have undercut rivals to an unprofitable level thereby jeopardizing their ability to fulfil the contract;
- where a reserve price was not reached Caradon retained the option of returning to negotiations;
- considering the impact on the local community when awarding contracts;
- looking at arrangements for employing local people within larger contracts;
- weighting bids to give preference to local suppliers; and
- considering the disadvantages to the organisation, where local suppliers were losing contracts.

7.4. Type of information exchanged

Caradon provided consulting advice to some local suppliers to help them prepare their bids for the on-line auctions. This type of advice was only available to local suppliers but it did not guarantee success. This assistance is a modification to the principle of widely available, explicit information that is characteristic of Arm’s Length Relations.

Assistance was given to local suppliers in preparing bids as a form of goodwill. We know that most local suppliers have found it a difficult transition to make and we felt we owed them this level of support. (Procurement Manager).

It was perceived by Caradon that this form of assistance could continue in the future.

We have nothing against providing information to local companies if they want it. International companies send an email asking all sorts of questions. I don’t think we are being unfair in answering questions from local suppliers. (Caradon Procurement Officer).

7.5. Forms of inter-firm governance

Caradon employees had a sense of regret at moving from close relationships with a few suppliers. These relationships were comfortable for suppliers and Caradon procurement staff since they were characterised by more informal contracts. When more goods were needed there was no need to develop a detailed specification for the suppliers.

The previous relationship allowed for descriptions to be written on the back of a cigarette packet. He (the contractor) knows what I want, I know what I want and he gives me a price. (Buying Officer).
Table 1
The characteristics of a hybrid model of buyer–supplier relationships

<table>
<thead>
<tr>
<th>Relationship characteristic</th>
<th>Relationship feature</th>
<th>Pre e-market relationship with local suppliers</th>
<th>E-market relationship with suppliers</th>
<th>Hybrid model for local suppliers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assumptions about frequency of interaction</td>
<td>Expectations of recurring business</td>
<td>High expectations of recurring business. Many contracts rolled over</td>
<td>Business awarded on a competitive basis</td>
<td>Local firms obtained support to improve their chances of repeat business</td>
</tr>
<tr>
<td>Service relationship</td>
<td>Emphasis on relationship</td>
<td>Emphasis more on discreet service encounter General push to obtain lower prices Yes</td>
<td>Preferential treatment of local suppliers overrode lowest price Some negotiation with local suppliers</td>
<td></td>
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<tr>
<td>Push for lowest price possible Use exit to solve problems</td>
<td>Tried to resolve problems</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Expectations of interdependence and reciprocity</td>
<td>Level of information sharing</td>
<td>Thick information sharing Information provided in formal specifications</td>
<td>Local suppliers encouraged to obtain more information about the auction</td>
<td></td>
</tr>
<tr>
<td>Joint problem solving</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td></td>
</tr>
<tr>
<td>Emphasis on quality</td>
<td>Yes</td>
<td>Improved quality through formal specifications for auctions No</td>
<td>Formal specifications improve quality</td>
<td></td>
</tr>
<tr>
<td>Level of Reciprocity</td>
<td>Yes</td>
<td></td>
<td>No expectations of reciprocity</td>
<td></td>
</tr>
<tr>
<td>Norms of interpersonal interaction</td>
<td>Level of trust</td>
<td>High level of trust Lower levels of trust</td>
<td>Local suppliers build on trust from pre-e-market period</td>
<td></td>
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<tr>
<td>Level of self-interest/goodwill</td>
<td>High levels of goodwill Greater self-interest</td>
<td>Concern for local supplier community</td>
<td></td>
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<tr>
<td>Level of obligation/opportunism</td>
<td>High levels of obligation Opportunistic</td>
<td>Allegiance to local supplier community rather than individual companies</td>
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<td></td>
</tr>
<tr>
<td>Protocols for information exchange</td>
<td>Privileged information</td>
<td>Public widely available information on auctions Help provided to local suppliers to improve competitiveness</td>
<td></td>
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<tr>
<td>Form of interfirm governance</td>
<td>Social contracts Formal contracts</td>
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The degree of informality and comfort visible in previous approaches to specification of contracts through close-knit relationships with suppliers has been replaced and the emphasis is now on gaining competitive bids. This even led to the questioning of the professionalism of the procurement staff in the past.

It really does challenge arrangements that they have put in place over many years and it calls into question how effective they’ve been in their roles. (Purchasing manager).

The increased workload that came from developing formal specifications for the auctions led to additional stress for staff. Although it was anticipated that there would be some re-useability in the specifications required for the auctions it was thought that this would not be high. The procurement manager expressed some concern that a much more impersonal workplace would result from moving to a global market and that this could impinge on the job satisfaction of his staff.

Caradon’s e-marketplace strategy is summarised in Table 1. It shows the pre-marketplace relationship characteristics with local suppliers, the general type of relationships that prevailed after the global e-marketplace was adopted and the characteristics of the hybrid model developed for local suppliers.

8. Discussion

Caradon adopted a global electronic marketplace to reduce the cost of procurement but was conscious of the risk of alienating the local supplier community. A hybrid model of buyer–seller relationships was developed to involve the local suppliers in the new procurement arena. As Caradon’s strategy evolved, it shifted the emphasis of its local contribution, from one of supporting local companies by procuring from them to one of being an e-catalyst by supporting local companies to make the transition to e-procurement.

The transition to global e-marketplace trading impacted significantly on the relationship with the local supplier base. Initially, some local suppliers were hostile to the changes and some refused to take part in the on-line auctions. Those that took part in the on-line auctions assumed that the lowest price was always going to win the contract. As time progressed, those companies that did take part realised the benefits of the new mechanism where formal contracts clearly specified what was required. When Caradon realised the severity of the problem, assistance was provided to some of the local suppliers to prepare bids and weightings were added to the auction process to favour local suppliers along with a range of other considerations.

Relational theory based on embedded and arm’s length relations can be used as a starting point to understand characteristics of relationships with suppliers (Schultze & Orlikowski, 2004) but in practice a major company’s relationships with suppliers is likely to be more complex and require hybrid arrangements. Indeed, corporate social responsibility is one complicating factor that needs to be considered in the development of buyer–supplier relationships involving global e-marketplace platforms. The management of hybrid buyer–supplier relationships involves strategies for maintaining good relations with local suppliers but at the same time obtaining globally competitive prices.

The findings reported in this paper identify a particular type of hybrid buyer–supplier relationship that manages local constituents within a broad global market strategy. The
model reduces the risk of alienating local constituents such as local supplier businesses and wider community support. The case study demonstrates that local supplier and community constituents do not have to be sacrificed when adopting strategies that are built around efficient international sourcing. Further, those companies that act in a socially responsible manner can balance, what might appear as, competing local and global forces.

A hybrid model to manage local suppliers within a broad market exchange structure can be used to alleviate the problems associated with underdesigned and overdesigned relationships (Bensaou, 1999). By developing a hybrid model (Fig. 3), local suppliers that fall into the underdesigned and overdesigned categories can be moved into a quasi market exchange model to mitigate the problems (Fig. 4). Local supplier relationships that rely heavily on informal communication and requirements’ specifications with an absence of formal contracts are likely to be problematic for the buyer. The high wastage and poor service that is characteristic of underdesigned relationships can be improved by moving to a market exchange where contracts can be formally specified and a reassessment made of appropriate suppliers. Overdesigned relationships which involve considerable staff-time can be stream-lined by market exchange contracts and deliver substantial savings over-time for the buyer.

The local community model melds a product perspective with a constituent perspective. Bensaou (1999) suggests the consideration of the product, the technology and the market are important in the redesign of relationships. We argue that local suppliers and local community perception need to be incorporated in relationship redesign. The benefits of doing this include a more cooperative supplier group and a more supportive broader local community, or at least the likelihood of less hostility to the adoption of global procurement platforms.

- Assumptions of competitive interactions with some preferential support
- Some elements of negotiation with local suppliers
- Lowest price not the most important factor
- Formal specifications improve quality of service
- No expectations of reciprocity
- Local suppliers have a history of trust
- Buyer takes a community perspective

Fig. 3. Local community hybrid model.
9. Implications for practitioners

Organisations should clarify their policies on how to manage existing local relationships if they adopt global procurement systems. The provision of information to existing suppliers concerning the new strategy and the implications for suppliers needs to be addressed. If this is not done effectively then the image and reputation of the organisation may be damaged with suppliers and the local community. Internal policies should explain for example whether the lowest price is the sole criterion to be considered in the auction process and if any support for existing suppliers will be given prior to the auction. Procurement staff running auctions on a daily basis may have to make decisions involving the selection of local versus international suppliers. They need to be equipped to deal with these decisions and be guided by policy.

Education and training in relation to the changing nature of procurement roles is required. Generally, through an e-marketplace there would be less on-going personal contact with suppliers. The increasing automation in procurement roles may be perceived as diminishing job satisfaction, although the challenges of global procurement can be stressed as an opportunity for deriving job satisfaction. Procurement staff may feel more comfortable in dealing with suppliers that share the same business culture and approaches and this could lead to an unconscious preference for the selection of local suppliers rather than those from a culturally different region.

Organisations need to review their company statements on their role in the local community. Company objectives related to building the local business community may be seen as being in conflict with participation in a global procurement marketplace. A company’s political and economic place within a local community needs to be redefined and communicated to stakeholders (Table 2).

10. Conclusions

The case study on Caradon has addressed the call from Grover et al. (2002) for in-depth longitudinal case studies that investigate the competitive and cooperative cycles within organisational relationships. The trend towards globalization, fuelled by developing information technology, is affected by a complex interplay of economic, social, political and cultural factors. Organisations therefore need to take a broader perspective towards inter-organisational information systems, such as e-marketplaces, and maintain awareness of the far-reaching influences of adoption. The economic benefits of globalization and
e-marketplace participation that have been stressed in the literature cannot be fully realised without consideration of the relational social, political and work practice issues. In particular, firms may need to develop hybrid buyer–supplier models that effectively harness the contribution that local suppliers can make and in a wider sense that maintain goodwill in the local community.

The development of hybrid buyer–supplier structures is likely to be a difficult process for many companies since they have to reconcile different stakeholder pressures such as shareholders and local constituents. The process is made more difficult because companies lack guidance and experience in balancing the sometimes opposing local and global forces. Although this paper has examined the nature of hybrid buyer–supplier relationships within such an environment we have not covered in detail the processes and stages that need to be developed to obtain a desirable outcome for all parties. A process perspective provides opportunities for further research. In addition, the trend of globalisation has created a state of dynamic change that is impacting on how companies develop and manage relationships with suppliers. This provides opportunities for further research on many other forms of hybrid relationship where information technology plays an integral role.

Organisations that take a purely economic view of global electronic marketplace participation can face a number of dilemmas that are difficult to resolve, such as a lack of trust in supplier relationships, local community opposition and dissatisfied employees. In contrast, hybrid models that encourage local supplier participation in e-marketplace trading

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<td>Important factors related to hybrid models that consider local firms</td>
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<td><strong>Issue in transition to global e-markets</strong></td>
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<td>Risk of alienating local supplier base</td>
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<td>Staff may cling to established relationships</td>
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<td>Company may be accused of ignoring local community</td>
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<td>Suppliers may be suspicious of change</td>
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<tr>
<td>Staff fear loss of job satisfaction and increased workloads</td>
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offer a more realistic and sustainable way to reduce the costs of procurement. Although information and communication technologies are seen as a facilitator of globalization, the same technologies can be used to support and encourage local constituents.

References


