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LOW CONFIDENCE IN PROVIDER-CUSTOMER PARTNERSHIP: PROPOSAL FOR FASTER INTRODUCTION OF INNOVATION MANAGEMENT

Consequently, the need of developing strategic partnerships between provider and customer, as acknowledged in our survey carried out within Slovenian logistics industry, becomes the opportunity to introduce innovation management into this economically important industry. As many outsourcing partners experience difficulties in forming such partnership, we propose a model that initiates, develops and manages provider-enterprise strategic partnerships with the aim of achieving mutual higher value, better organized innovations management, and allowing both partners successfully compete at today's hypercompetitive market.

Keywords: strategic partnership; strategic outsourcing; innovation management; knowledge transfer; creativity.

JEL Classification: L91, M21, R41

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НИЗЬКИЙ РІВЕНЬ УПЕВНЕНОСТІ В ПАРТНЕРСТВІ "ПОСТАЧАЛЬНИК-КЛІЄНТ": ПРОПОЗИЦІЯ ЩОДО ПРИСКОРЕНОГО ВПРОВАДЖЕННЯ ІННОВАЦІЙНОГО МЕНЕДЖМЕНТУ

У статті показано, що потреба в розвитку стратегічного партнерства між постачальником і клієнтом, яку доведено на прикладі словенської логістики, надає можливість впровадження інноваційного менеджменту в цю економічно значущу галузь. Оскільки багато аутсорсинг-партнерів зазнають труднощів у формуванні такого партнерства, пропонується модель заснування, розвитку і управління стратегічним партнерством "постачальник-підприємство" з метою збільшення загальних прибутків, кращої організації інноваційного менеджменту і підвищення конкурентоспроможності обох партнерів на сучасному гіперконкурентному ринку.

Ключові слова: стратегічне партнерство; стратегічний аутсорсинг; менеджмент інновацій; передача знань; креативність.

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НИЗКИЙ УРОВЕНЬ УВЕРЕННОСТИ В ПАРТНЕРСТВЕ "ПОСТАВЩИК-КЛИЕНТ": ПРЕДЛОЖЕНИЕ ПО УСКОРЕННОМУ ВНЕДРЕНИЮ ИННОВАЦИОННОГО МЕНЕДЖМЕНТА

В статье показано, что потребность в развитии стратегического партнерства между поставщиком и клиентом, которую обосновано на примере словенской логистики, дает возможность внедрения инновационного менеджмента в эту экономически значимую отрасль. Так как многие аутсорсинг-партнеры испытывают трудности в формировании такого партнерства, предлагается модель основания, развития и управления стратегическим партнерством "поставщик-предприятие" с целью увеличения общих прибылей, лучшей организации инновационного менеджмента и повышения конкурентоспособности обоих партнеров на современном гиперконкурентном рынке.

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Ключевые слова: стратегическое партнерство; стратегический аутсорсинг; менеджмент инноваций; передача знаний; креативность.

Introduction. Today's competitive market has become more knowledge-based forcing enterprises to differentiate themselves from other competitors. Namely, knowledge and innovations development have become increasingly important elements and, consequently, key factors in competitiveness. Enterprises have realised that improving services or development of new innovations as well as a rapid response to rapidly changing needs [26] won't be possible without external providers, given the internal lack of knowledge related to higher performance as well as innovation development [4]. On this basis a new form of outsourcing, so-called strategic outsourcing, in which partners' cooperative ties play an extremely important role, emerged [28]. Strategic outsourcing is an arrangement that provides specialized capabilities, which supplement existing capabilities, through the accumulation of internal and external knowledge [7], [8].

Strategic outsourcing basis on the supplier-customer relationship has already been explored and analysed by different authors [6], [12], [17], [25], [26], [31], but not so much in the specific field of national economy — the logistics [9], [13]. In addition, many researchers have investigated key partnership factors [1], [13], [15], yet without establishing correlations between them and even other steps that are crucial for the successful establishment of a strategic partnership. Consequently, we see the need for further research into the field of strategic partnership, focusing on positive impacts the partnership might have on innovation management.

To determine the current level of inter-firm relationship within outsourcing in Slovenia, a survey aiming to check awareness of the importance of cooperation, to ascertain the degree of cooperation between shippers and logistics providers and to identify reasons for the low level of cooperation was performed. Sampling was limited to the firms within Slovenia, covering only those logistics companies which have already provided outsourcing to their customers. Therefore, though both large and small enterprises were included, the largest percentage of them was relatively large companies, both in terms of number of employees and revenue.

Based on the theoretical acknowledgment regarding strategic outsourcing, inter-firm cooperation, relationship management and new knowledge creation and investigation of the actual situation in Slovenia, we are proposing a model to cover the increasing needs of advanced provider-customer relationships and the need for faster introduction of innovation management.

Literature review. The Partnership Act [5] defined partnership as the relation that exists between persons with the aim of making profit. Caro et al. [3] have extended relationship to the exchange of property rights between two firms, with the aim of mutually achieving the partners' goals and developing competitive advantages [32]. According to Meng [20], partnering can be divided into project partnering, based on a short-term relationship, and strategic partnering, based on long-term collaboration. However, for competitive advantage and innovations as well as cost reduction, a long-term relationship [14], [23], [32] which even helps to improve the quality of the relationship and represents a basis for mutual trust [15], is required. It ensures superior

performance and "win-win" effects, and, in addition, enhances costs reduction, quality improvement, responsiveness and flexibility [25].

After transactional, short-term cooperation, based on formal contracts, where the rules are very precisely defined and errors are punished by penalties [18], which has been characterized by very limited communication, opportunistic behaviour, a low level of interdependence between partners and low asset specificity [31], strategic cooperation, adjusted to business needs and requirements of the environment and based on the idea of risks and benefits sharing, joint problem solving and exchange of tacit knowledge, is developed.

Wong et al. [32] expose that strategic partnership leads to many tangible as well as intangible benefits. Among the tangible benefits are bottom-line success, rapid change reduction of costs, increase of market responsiveness, increased revenues and profitability, access to new markets, augmentation of existing product/service lines, higher product or service quality, increased speed and flexibility, access to technological and other expertise, development of knowledge and innovations, spreading and sharing of costs and risks of new products/services development, reduction of development lead-time, efficient economy [5], [12], [21], [27], [32]. Intangible benefits include customer satisfaction and service, closer management contact, better understanding of customer requirements etc. [12]. Kasouf and Celuch [11] expose different barriers of strategic partnership development in the sense of risk exposure, such as loss of strategic position, flexibility, knowledge, intellectual capital and intellectual property, high transactional costs and difficulties in establishing, maintaining and coordinating the alliance, for reasons such as lack of trust, commitment, secreting or leaking information, opportunistic behaviour, problems related to different cultures harmonization etc.

The key principles that strengthen the ties between partners are process variables, which include cognitive, relational and structural social capital, and outcome variables [10], [30]. Within the first category undoubtedly fall commitment, such as calculative and loyalty commitment [16], [31], which according to [32] impacts interdependence between partners over a long-term relationship. Moreover, Langfield-Smith and Smith [13] and Marshall [19] present trust in goodwill and competence that are usually linked with risks. Thus, also risk, including performance and relational risks, and benefit sharing as well as information sharing, and joint problem solving are important element of strategic relationship and innovation management. Jae-Nam and Young-Gul [10] state that all these variable elements represent key process variables, which directly influence the success of outsourcing. While timely communication, performance measurements and continuous improvement, mutual aims, flexible responses to unanticipated changes [17] etc. are major determinants of the outsourcing process principles [15], [20], however, the second group of outsourcing outcome variables includes cost savings, quality of performance, user satisfaction etc.

Results — Key factors of successful outsourcing and low trust in partnership relation. Interviewees were asked to indicate to what extent they agree that mutual relationships, high levels of trust, communication, information transparency, commitment, sharing risks and rewards and joint problem solving contribute to the successful implementation of outsourcing and achieving "win-win" results. Over 96% strongly agreed that mutual relationships, high level of trust and communication to the

greatest extent affect the success of outsourcing. A lower, but still quite high percentage of 92% confirmed the importance of mutual problems solving. Less agreement, 81%, was found in the area of information transparency. In addition, risk sharing solution and level of commitment and importance of joint-creativity was validated by only 36% of the respondents.

It is encouraging that the logistics companies in Slovenia, despite a lower level of outsourcing in the country, compared to the world, are aware of the importance of partnership. But at the same time the fact that they neglect the importance of supply chain improvements and, more important, importance of creativity, must be considered with special care. They argued that in Slovenia currently there is no demand for such an approach. In addition, very little willingness to share knowledge and collective development of innovation exist. Although Slovenian logistics service providers are aware of the importance of close cooperation, the current situation shows that they had problems with the ability to form meaningful and trusting relationships. 54% of the interviewed persons strongly agreed they had a quite high level of collaboration and 50% of the interviewed confirmed that they had a quite high level of communication. Only 38% agreed that employees have quite a high level of mutual trust and only 27% agreed on transparency. Finally, just 23% strongly agreed that they have a high level of commitment. Consequently, the need for new approach to introduce innovation management in the partnership relation appears.

Table 1. Recognised factors of unsatisfactory relationships

Reasons	Yes (%)	No (%)	No opinion (%)
loss of autonomy	25	75	0
fear of dependence	25	75	0
losing control	50	50	0
fear of data loss	75	25	0
shippers' distrust	0	100	0

Among the reasons for poor mutual relationships most interviewees pointed out the fear of data loss (75%) (see Table 1). Half of the respondents said that fear of losing control over the logistics service provider contributes to this situation, while two other factors — loss of autonomy and fear of dependence on logistics service providers — were not the reasons for poor relationships. But all the respondents agreed that shippers' distrust, which is at a quite high level, has no influence on the relationship.

Solution. Model of building and managing strategic provider-customer partnership. Based on our acknowledgment and with the vision on how to successfully overcome actual increasing problems, we propose an integrated framework for logistics provider-customer partnership (Figure 1.). The presented model suitable for logistics enterprises includes 6 interconnected core elements influencing a provider-customer relationship and the position to solve actual managing problems:

1. Defining role of a partnership.
2. Assessing current and future relationship.
3. Achieving relationship stability.
4. Maintaining and managing a relationship.
5. Evaluating a relationship.
6. Assessing relationship values.

All the elements should be developed, supported and monitored by management. In addition, top management in a logistics company should strengthen business relations with the management of their customers. The first step in partnership management is to reconsider business strategy and the role of the logistics partnership within it. Without this mutual relationship, as a part of business strategy, there is a risk that the partnership will fail. The second element is an assessment of the current and future relationship and the basis on which to define a partnership vision. Criteria for assessing the partnership's level may be tangible, such as savings, the level of performance etc., or intangible, such as degree of mutual interests and objectives, degree of closeness and level of trust.

It was found that management and control mechanisms are not sufficient factors for a successful partnership. The relationship first needs to be attractive for the partners, primarily given the following factors:

- Tangible components, such as price reduction, shorter times of service performance, innovations, higher competitiveness, on one hand, and/or
- Intangible elements, such as trust, commitment, power, non-opportunistic behaviour, win-win attitude, risks, problem and benefits sharing, communication and information sharing etc., on the other hand.

Both tangible and intangible elements are crucial for partnership excellence, resulting in higher creativity and innovations. Tangible components are not as critical for the partnership as the intangible ones. Nevertheless, elements of price reduction, performance time and service quality should be jointly defined and monitored by both parties. According to our findings the keys for successful strategic partnership are mostly intangible elements. Trust contributes to willingness to share information and knowledge and consequently has a positive impact on innovativeness, as well as on transfer of management responsibilities into the hands of logistics service providers, while also discouraging partners from using formal contracts, which in the case of strategic outsourcing certainly are less important. The level of trust is largely influenced and increases with commitment and vice versa. In fact, a combination of trust and commitment leads to cooperation. On the other hand, both components are positively influenced by long-term cooperation. Moreover, knowledge sharing is of great importance for intelligent outsourcing and creation of innovations. Above mentioned factors have strong impacts on achieving relationship stability, which can be described as the third step of building a strategic relationship.

The fourth step includes the actions on establishment and strength of actions connected to maintenance or management of the relationship and frequency of interactions, type of communication and conflict management. In order to meet the objectives of all the partners, as well as to improve the relationship, the role of relationship management is to maintain, enhance and control the relationship on both the short-term (daily) as well as on long-term basis. We recognize a need to use both formal (documented) and informal methods (personal meetings). In cases of a high level of trust between partners, it might be sufficient to use only informal or personal methods of coordination. This usually leads to stronger relationship and joint focus on higher creativity. Frequency of interactions, on one hand, allows exchange of accurate and timely information and knowledge, with the aim of creating and stimulating new ideas and innovations, while at the same time reducing any uncertainty and conflicts and leading to a higher level of trust.

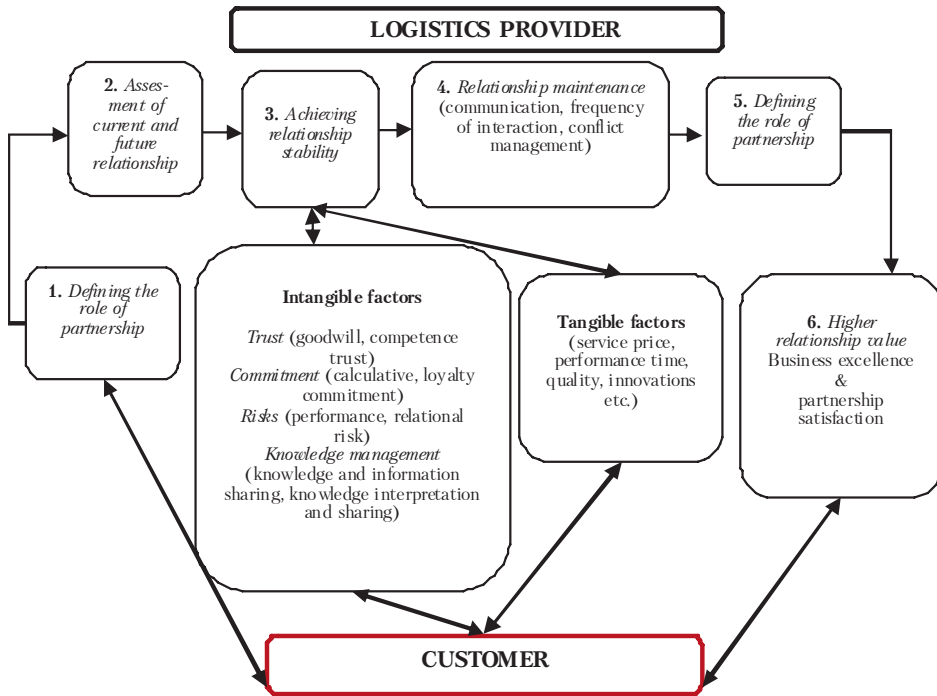


Figure 1. A model for building, managing and maintaining strategic relationship between provider and customer

A relationship should never be considered as a permanent solution; a proper evaluation and monitoring process of the relationship should be established, with an aim to attain desired objectives related to future competitiveness. According to [29] a relationship's monitoring refers to a control system development able to supervise but also coordinate a partnership and strengthen the total level of trust. According to our model the control system is set as the fifth step. It should include formal (outcome and behaviour control) and informal (social) control. However, in the case of a strategic partnership based on a joint venture, benefits and risk sharing, a trust-based pattern characterized by both outcome and social control is much more important. Nevertheless, the use of a formal evaluation of the performance of tasks, processes and activities as well as the creation of joint key performance indicators for constant improvement and ensuring long-term effect is also essential.

Conclusion. In today's economy strong and at the same time flexible partnerships play the most important role in achieving the desired business and economy excellence. According to our survey, a collaborative relationship has been recognized as a critical factor in Slovenian outsourcing. The proposed model helps the transition from transactional to strategic partnership through 6 phases. It shows how to select the right elements to achieve strategic outsourcing, since we believe that understanding the fit between different indicators and successful performance is the most crucial thing to know and understand for managers. Moreover, the model outlines how to co-create new innovations through knowledge sharing between partners in order to achieve higher profits and benefits for both partners.

Through adopting such a model, partners would be in a position to attract new customers and to build long-standing partnerships, as the base for joint-innovation management development. Consequently, the model is of great help and support especially for managers with the vision to shift from transactional to strategic relationships. This process might be the subject of further detailed analyses in Slovenian or European companies. Furthermore, the logistics field might be extended to other fields of national or international economy.

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Стаття надійшла до редакції 21.05.2012.