

**Rosa Alba Miraglia
Antonio Leotta**

CONTROL IN SUPPLY RELATIONS BETWEEN BUSINESSES

Accounting
& Business
Studies

Theoretical perspectives
and empirical evidence

FrancoAngeli

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Translation by Laura Iovanna

Original Italian Edition, *Il controllo nelle relazioni di fornitura tra imprese.*

Prospettive teoriche ed evidenze empiriche

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To our families

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INTRODUCTION

The closing decades of the last century have provided a particularly clear portrayal of the creation of non-competitive relations between businesses. As time passes, the relevance of this phenomenon is such as to call the attention of a great many researchers involved in the various different areas of economic studies. Business scholars in particular (industrial economists and scholars of business strategy and organisation) now carefully examine the reasons underlying the genesis and development of inter-organisational relations. Constant attention is paid to the importance of environmental, internal organisational and competitive factors. The aim is to better understand the nature and scope of non-competitive relations; to understand “if” and “how” this phenomenon affects the managerial problems that management is called to deal with. The importance and international reach of this phenomenon justifies the great number and wealth of contributions available in these areas of research.

Yet contributions relating to inter-organisational control, the area specifically concerned by this study, remain relatively rare. Those that do exist conduct a more general examination of the needs for information and economic and other measurement mechanisms, in addition to the administrative systems. These matters are particularly closely linked to the influence that the presence of non-competitive relations has on the formation of the economic results of the businesses involved. The splitting of the unitary production process, the presence of shared resources and specific investments and the creation and/or use of know-how are just some of the factors that give rise to a significant economic inter-dependency of partner businesses and which affect the related results accordingly. In this context, therefore, the economic results of the individual business are not obtained

purely from the way in which the related processes are managed, but rather also from the business operating logics and, more specifically, from the way in which the supplier and customer business processes are managed. An awareness of the importance of these inter-dependencies therefore reveals a need to investigate knowledge of the needs for information and measurement mechanisms further. This is indeed useful not only at the time of assessing whether or not it is worthwhile creating the relationship, but also subsequently during the course of its "life", i.e. at the time of its economic management, when measuring the related benefit and, finally, when the economic results shared by the partner businesses are divided. The main aim of these studies is therefore to assess the expediency of the economic measurement instruments traditionally used in hierarchical businesses, when introduced into a new context, as is that of relations, and potentially to conceive measurement instruments that are better suited to the emerging context.

Again with respect to inter-organisational control, there are works that seek to deal with and participate in the solution of the problems relating to the configuration, design and use of managerial control. Most of the contributions on the matter consider this mechanism an essential tool by which to bring the individual processes developed by partner businesses back to a unitary system, able to produce value and pursue continuous improvement. They are, however, contributions relating to specific relational contexts and, therefore, the various solutions proposed are difficult to transfer to more general contexts.

As yet, few contributions seek to understand the phenomenon of control in inter-organisational relations, analysing its intrinsic aspects. We are firmly convinced that a proper understanding of this phenomenon can only come not from a rather detached examination of one or more forms of "control" mechanisms, such as controls of results, shares, etc., but rather it must stem from an attempt to gain awareness of the very "intimacy" of the phenomenon being studied.

The purpose of this work is therefore to join the growing scientific debate as it strives to better understand the phenomenon of control in inter-organisational relations. This understanding is extremely useful today, given the increasingly widespread formation of non-competitive relations between businesses. We believe, however, that in order to fully gain such awareness, we must have a theoretical framework for this type of control. We believe that the theories, which act as lenses through which to observe reality and reveal the phenomena from certain viewpoints, enable an in-depth awareness to be gleaned of inter-organisational control through the

hypotheses and assumptions on which they are based. The examination of the various theories on the phenomenon investigated then enables its observation from very different perspectives, significantly increasing our knowledge. We therefore believe that the best way by which to go about achieving this "knowledge-seeking" objective is to examine the theories applied to represent the phenomenon of inter-organisational control.

To this end, the route we have chosen as most appropriate requires a preliminary reconstruction of today's "state-of-the-art" in literature, in terms of consolidated approaches to organisational control, and an examination of the hypotheses and assumptions underlying each of these approaches. The purpose is first and foremost to understand if the approaches taken to organisational control are actually able to provide an effective representation of the phenomenon of inter-organisational control; following this, we will reflect on the possibility of potentially extending the "visions" of the scholars to inter-organisational control, in order to understand the phenomenon of organisational control.

If the analysis should show that such an extension is inappropriate, it will then be important to reconstruct the state-of-the-art of literature on inter-organisational control by identifying the relevant emerging perspectives, in order to clarify the theoretical roots of this control highlighted by the study of the hypotheses and assumptions behind each perspective. Please note that the choice of the term *perspective* rather than *approach* stems from a hypothesised relation of cause and effect between the second and first: *approach*, to set out the consolidated theoretical visions connected with organisational control; *perspective* to refer to the emerging theoretical currents on inter-organisational control, resulting from one or more of these visions¹. The reconstruction of the various perspectives will also enable an examination of the different contributions made by them in terms of better understanding inter-organisational control.

¹ More specifically, in this work, the terms *approaches* and *perspectives* are used to organise contributions on control in organisations (approaches) and those on control in inter-organisational relations (perspectives) into homogeneous categories. The term *approach* is specifically used to refer to a set of contributions, the homogeneity of which regards the reference theoretical matrix: we can therefore distinguish between structural, behavioural, procedural and contractual approaches, associated with the corresponding theoretical visions. We instead use the term *perspective* to refer to a certain category of contributions, the homogeneity of which regards the features with which we read inter-organisational control, features that share the coherence of theoretical visions providing the input for this perspective. We draw the following distinction: between the transactional perspective, relational perspective and the perspective of the social system.

This will be achieved for each perspective by analysing the role assigned to the control, its main features and the nature of the relevant levers.

Both these systematic reconstructions, aiming to achieve the declared "knowledge objective", will then enable us to examine both any connections that may be found between the approaches taken towards organisational control and the perspectives on inter-organisational control, and any potential homogeneity or differences revealed between them.

As we embark on this path of knowledge, we are in any case aware that each theory observes reality and depicts the phenomena from certain angles, and therefore can only yield selective, partial results. The need therefore follows to subsequently highlight just how the observation of reality and the representation of the phenomenon of inter-organisational control differ in adopting the different theoretical perspectives. This can be done by preparing case studies. The study will, however, first require the clarification of some essential aspects of methodology.

The reference context of this study is the supply relationship between supplier business and customer business and not other organisational forms (such as groups, joint ventures, franchising, consortia, industrial districts etc.). This choice means immediately grasping the distinctive traits of the connections created between partner businesses, as this knowledge is essential in order to then proceed by identifying the control needs revealed. These needs are instead more difficult to identify in a more complex aggregation context, where several relationships are in place at the same time, each with its own specific control requirements. Although the scope of investigation identified is limited, for the sake of simplicity, we will use the term "inter-organisational control" to refer to that used in supply relationships between businesses.

The work presents some reflections and considerations gleaned over recent years of research, whilst also referring to the literature, albeit limited, of reference. It is structured into two interlinked parts.

The first (chapters 1, 2, 3 and 4) see us seek to construct a conceptual framework in a bid to interpret and understand the supply relations between businesses and inter-organisational control. Attention is paid above all to the identification of the work analysis unit and the study of the emerging theoretical perspectives, which represent control in supply relations between businesses.

Chapter 1 aims to outline the study scope of investigation. To do so, we must first understand exactly why inter-company collaborations are established, identify the organisational forms that such collaborations may take and explain the reasons behind the choice of supply relations between a

supplier business and a customer business as a unit of analysis for this study. The most significant characteristics of this unit of analysis, deemed to be functional to this study, will then be examined: the value creation process, relations between the parties concerned, the product and the decision-making processes. Again as concerns the unit of analysis, we then note the issues most dealt with by business scholars, mainly discussing those relating to inter-organisational control. Finally, the objective of the work is clarified, namely to understand the intrinsic aspects of the phenomenon of inter-organisational control by establishing its theoretical framework, along with the research structure we intend to apply.

Chapter 2 examines the technical approaches taken to control in complex organisations. The aim we set ourselves is to assess whether or not the approaches taken to organisational control are able to provide an effective representation of the phenomenon of inter-organisational control and, therefore, if the "visions" taken by scholars in examining the former, can be transferred to the latter type of control. This objective requires a description of the theoretical approaches taken to organisational control, as seen in consolidated literature. We are talking about the structural, procedural, behavioural and contractual approaches. Starting from the relevant descriptions, focussed on the underlying hypotheses and assumptions, we will seek to observe the role assigned to control and the methods applied in exercising it according to the different approaches; these aspects are important in then identifying the control levers that can be seen in each approach. We will therefore conduct a more detailed examination of the features assumed by the organisational control according to these same approaches. These features can be deduced from coherent interpretations, identified beforehand. This analysis should then enable us to highlight the limits to the approaches taken to organisational control in terms of their capacity to provide an appropriate representation of the phenomenon of inter-organisational control.

Chapter 3 acknowledges the limits to the approaches to organisational control and therefore aims to gain more in-depth awareness of inter-organisational control through the analysis of the specific theoretical perspectives described in literature. The emerging perspectives examined are the transactional perspective, the relational perspective and the perspective of the social system. By describing and analysing them, and considering the hypotheses and assumptions on which they are based, we will be able to identify both the role assigned to the control according to each of the perspectives and the related levers and their specific meaning, in addition to the main features taken on by the control in the various different philosophies

examined. As for the organisational investigation, the features of the inter-organisational control can also be understood from specific interpretations. In order to increase our understanding of the phenomenon studied, we will then seek out the logical connections between the theoretical vision underlying the individual perspective on the one hand, and the interpretations on the other. This methodology will enable us to view the logical connections in a unitary fashion, by means of the construction of a conceptual model.

Chapter 4, on the other hand, looks to investigate a specific aspect of inter-organisational control in greater depth. It is an exploration of the existence of any connections between the perspectives on inter-organisational control and the approaches taken to organisational control. Clearly, these connections are only possible if the perspective and approach have the same theoretical matrix. By analysing these connections, we strive to grasp the potential evolution of an approach over time, whereby it emerges as a perspective considering the characteristics of the relational context. The analysis of the connection is then further investigated in order to examine the similarities and differences seen between the approaches and perspectives. This examination requires a comparison of the features taken on by control respectively in the approaches and perspectives that share the same theoretical vision. Finally, we need to reflect a little on the connections and comparisons drawn previously. We must specify that the aim of this analysis is to provide a more in-depth theoretical investigation with a view to ensuring a greater understanding of the origins of each perspective. This investigation will not, therefore, apply directly to the empirical part of the work.

In the second part (chapters 5 and 6), we seek to interpret the phenomenon of inter-organisational control in certain inter-company contexts, in view of each individual theoretical perspective observed previously. The aim is to take a look at exactly how the various perspectives enable us to understand the phenomenon studied.

In chapter 5 we provide a definition of the research paradigm of this work and the consequent methodological approach taken. The aim is to identify the vision upstream of the study and to examine the related coordinates, namely the inter-connected ontological, epistemological and methodological aspects. Once identified, the study of the phenomenon of inter-organisational control, which continues to use the perspectives examined previously, requires the observation time frame to be selected. This is a question of drawing a distinction between static analysis and dynamic analysis, each with its own knowledge objectives to be pursued, on which we focus.

In chapter 6, two case studies are examined concerned with the analysis of control in supply relations. The aim is to observe how the different theoretical perspectives on inter-organisational control facilitate our understanding of the phenomenon investigated. To this end, after having explained some methodological aspects, a description is given of the context examined and we propose an interpretation of the inter-organisational control applied in the individual relational contexts observed, doing so according to the philosophy behind each perspective and, for the purpose of analysis, using the conceptual model discussed in the theoretical part. In doing so, we distinguish between static and dynamic analysis. These analyses, which are based on different time frames, are particularly interesting because they reveal heterogeneous aspects due to the way in which the role and meaning of inter-organisational control are respectively interpreted (static analysis) and re-interpreted (dynamic analysis) in order to help ensure the continuation of the supply relationship. The analysis of the individual case is completed with some thoughts, enriched by a comparative discussion of cases at the end of the chapter. The two case studies do not, on the other hand, examine the connection between organisational control understood according to consolidated approaches and inter-organisational control understood according to the emerging perspectives.

The conclusions end by highlighting the objectives achieved through the work, its limits and possible future scope for further research.

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PART ONE

UNIT OF ANALYSIS
AND THEORETICAL PERSPECTIVES