

## THE CONFIGURATIONS OF CONTROL IN THE NETWORK OUTSOURCING

Zouhour JARRAYA CHAARI

Faculty of Economics and Management Sfax, Tunis

[chaarizouhour@gmail.com](mailto:chaarizouhour@gmail.com)

Didier LECLERE

National Institute of Technical and Economic Accounting, France

### Abstract

*This article reveals the results of a research on the methods of control in the network of outsourcing and the associated contingencies factors. Four control configurations are presented in a matrix according to the risk level of the customer orders and closeness operated with the subcontractor. For each configuration, a method of controlling the prime contractor on its subcontractors is suggested.*

**Keywords:** control configurations, subcontracting relationship, level of risk, type of proximity.

**JEL Classification:** M31

### 1. Introduction

The worldwide competition creates more pressure on the contractors who now require greater involvement from their subcontractors. Thus, the traditional forms of outsourcing are gradually in favor of a more balanced relationship in terms of partnership outsourcing or subcontracting network. Alternative to vertical integration these structures are a new way to respond to a changing competitive environment (Christopher and Towill, 2002). The firm can then act as a contractor to coordinate different actors in the value chain and relies on external agreements rather than internal management of all the activities. In the context of network outsourcing, we are dealing with the vertical coordination of organizations that have specific goals, but share a common purpose in the value chain, which is the satisfaction of customer. However, the evolution of the outsourcing relationship involves many changes in the control of these new forms of interorganizational cooperation.

Ultimately, if an organization (prime contractor) cannot fully control the conditions for success of its action in calling a supplier (subcontractor) to deliver the necessary product or service, we can expect what it is looking for to control this supplier. The control requires mutual commitment, not only to fight against the opportunism of the other, but also to coordinate activities, give them an order and potentially cope with stakeholder cooperation. The control is a contractual arrangement or an incentive mechanism decided *ex ante*. It fits throughout cooperation and aims to better understand each other influence and coordinate its activities by both formal and informal mechanisms.

Many authors have highlighted the low level of contributions related to the theme of the coordination of inter-organizational networks including the control. Indeed, Dekker (2004) notes that "despite the increasing attention of inter-organizational networks and governance in the literature, these control structures is not well-studied. This observation justifies our interest in identifying the methods of control in the network of subcontracting. In addition, the study of methods of control over their subcontractors requires prior consideration of the forms of interorganizational relationships. Indeed, "there is not one type of customer-supplier relationship, but rather several types of relationships, and it can be assumed that the methods of control that we can observe are various and different" (Nogatchewsky, 2004). The question is the following: what kinds of relationships are there in the context of network outsourcing and what types of controls do contractors exert on their subcontractors?

The literature offers several theoretical references for classifying forms of relationship and their method of governance based on the characteristics of transactions (Williamson, 1979), the relational context in which they occur (Macneil, 1980, Dwyer *et al.* 1987) and the power of relationship and dependence between the parties (Nogatchewsky, 2004). However, the case study in a Tunisian network leads us to a privileged position in terms of risk level and closeness. This article is organized into three parts. The first part is about a review of the literature on the inter-organizational control and the presentation of our theoretical framework. The second part presents the methodology for qualitative case study. The third part is a matrix with four configuration control between the prime contractor and its subcontractors.

## 2. Literature review and theoretical framework

On the theoretical level, the design of the phenomenon of outsourcing has been developed in two main theoretical axes working for an explanation of the boundaries of the firm: i) *the theory of transaction costs* is primarily concerned with the problems between the customer and the supplier and ii) the current resource which focused mainly on the potential gains from the partners involved in the outsourcing relationship (Donada and Garrette, 1996).

### 1.1 The relationship of subcontracting in the transactional approach:

The transactional approach brings together authors analyze the trade as economic transactions. Within this approach, the theory of transaction costs (TCT) developed by Williamson (1985) occupies a dominant position. According to TCT, any transaction generates a cost directly from the confrontation of economic agents which only adds to the cost of the exchanged products. This cost depends on the characteristics of the transactions, the uncertainty that surrounds them, their frequency and specific assets needed to achieve them. It is also influenced by human factors - bounded rationality and opportunism of contractors. Therefore, you should choose the governance structure that will allow a better management of these transactions. Williamson (1985) offers three forms of governance which are associated with different types of contract:

- The market adapted to non-specific transactions and situations where adaptation problems are negligible and the standard contract provides the necessary guarantees to both parties;
- The hybrid form, suitable for mixed transactions and situations where contingencies cannot be known at the outset. It requires the neoclassical contract where each party accepts the assistance of a third party in conflict resolution and evaluation
- The hierarchy, adapted to recurring transactions and idiosyncratic, requires a custom contract and mechanisms such as hierarchical authority. Work references in the field of methods of control, in particular those of Ouchi, are mainly based on the theory of transaction costs and thus justify its use.

The theory of transaction costs has emerged in strategic management in the study of inter-organizational forms, including vertical relationships between the buyer-seller type such as sub-contracting or special shapes such as franchises and joint ventures. According to Williamson (1985), asset specificity is the essential attribute of the transaction and plays the central role in the implementation of a customer-supplier relationship. Thus, being likened to a hybrid (between the market and the organization), outsourcing is a form of organization most effective when the degree of asset specificity is intermediate. Indeed, the level of transaction costs influence the choice of organization in terms of internalization or outsourcing (Williamson, 1996)

In addition, the application of the theory of transaction costs to specific vertical forms are subcontracting seems appropriate to explain their formation and adequately supervise their management. However, according to the contractual perspective, the minimization of transaction costs is the main decision criteria. The subcontracting relations obey to a commercial logic of short and medium term where coordination takes place through authority. Under these conditions and to cope with problems of opportunism, the DO uses short term contracts and specific tasks. The foundations of contractual theories perfectly fit in the analysis of the relationship of traditional subcontracting. However, in the long term, the tradeoff between how and make-do is rather a strategic decision to ensure the renewal of competitive advantage. The contractual approaches seem, however, unable to explain the new forms of subcontracting relationships (Soussi, 2002).

### 1.2. The relationship of subcontracting in the current resource

The current resource is the second theoretical framework used. It is linked to the theory of transaction costs as the combination of resources is influenced by the minimization of transaction costs: the analysis helps to choose the governance structure (Mahoney and Pandian, 1992). Ring and Van de Ven (1992) emphasize that one should not ignore the role of trust, since it can reduce the risk and explain the structures of governance.

According to this perspective, cooperation primary objective is to borrow resources (especially skills) to external partners through a combination of new and existing capacity (Soussi, 2002). Moreover, to explain the existence of hybrid forms (such as networks of privileged partners) Cohendet and Llerena (1999) introduce a distinction between activities around core competencies and activities outside core competencies. According to the authors, this is the search for complementary skills to develop their own skills which explains the existence of hybrid forms. In this same line of thinking, Hamel and Prahalad (1990) argue that the complementary strategic resources are the primary factor behind the construction of the outsourcing relationship. Since the obligations and outcomes of this relationship are complex, the parties must devote great effort to defining and evaluating the

terms of the trust. In fact, a high level of trust allows the parties to focus on the long-term benefits from the relationship (Ganesan, 1994), which ultimately strengthens the competitiveness of partners and reduces transaction costs (Noordewin, John and Nevin, 1990). As a conclusion, studying the methods of control in the network outsourcing can not only be limited in the analysis of contractual mechanisms and in the interests of economic efficiency but also requires a consideration of trust, such as a new vision in different formation of interorganizational relationships like subcontracting, provided by current resources and not explicit in the theory of transaction costs

### 1.3. The outsourcing policy to impartion

Barreyre (1988), who invented the concept of impartion, define first by opposing the vertical integration. It is mainly to use an external partner to amplify the powerful strategy of the company. It is used as a possible optical for the company and an attitude of cooperation with those known as partners. The applying fields are large including the marketing, the production, the distribution, the research and the development. "There is impartion when a company, faced with the choice of "make or buy" opts for the second term of the alternative and thus delegated to a partner firm part of its global operations" (Barreyre, 1991, pp.762). Subcontracting is one of the possible political impartion. The characteristic of subcontracting, which differentiates it from other neighboring impartion, is that it implies a relationship of legal subordination: the subcontractor performs a benefit under the guidance of standards". Outsourcing is a relationship between a recipient and a principal subcontractor.

### 1.4. The traditional outsourcing partnership (STP)

The dissemination of new management techniques of production marked the transformation of an industrial system, suffering from difficulties (the system of mass production) into a more flexible system of production (Donada and Kessler, 1997). These technological changes could not remain without influence on the relationship between DO and ST. Indeed, the implementation of these new methods requires a much closer interaction between upstream and downstream (Altersohn, 1992). There is, therefore, in recent years, an evolution of the terms of implementation of subcontracting: increased time commitment, a new division of labor, technological contribution from the ST (Gorgeu and Mathieu, 1990). For some authors, these changes reflect the transition from a traditional outsourcing characterized by submission of a ST to a relationship based on trust and continuity (Baudry, 1993; Montmorillon, 1989). To describe these complex relationships, we can now speak about outsourcing partnership (Harbi, Calvi and Le Dain, 2003; Monateri, 2002; Montmorillon, 1989; Altersohn, 1992).

In the case of relationships DO/ST outsourcing partnership refers to a vertical relationship is characterized by AFNOR, a "state of mind making possible the creation of relationships between partners, based on research, having medium-term objectives and conducting under conditions to ensure mutual benefit. "The two main characteristics of the outsourcing partnership are, on the one hand, the length of the relationship (rather focused on the long term), and, on the other hand, the pursuit of common objectives. According to Donada and Garette (2000), the partnership can be defined as a "client-supplier cooperation which focuses on the design and the development of a specific project product for a limited duration. This relationship is neither a market transaction where the supplier sells the customer a component already developed, nor a contract or subcontract in which the supplier makes entirely a product designed and developed by the customer. For Ellram (1990), the partnership between a buyer and a supplier is an ongoing relationship and mutual commitment involving a long-term sharing of the information, the risks and the benefits associated with the relationship.

Cooper and Gardner (1993) highlight two key points in the definition of partnership:

- A relationship that aims to build an interdependent relationship, enhance coordination and improve market position.
- A relationship based on sharing profits and a long-term horizon.

### 1.5. The concept of control in the network of subcontracting

In fact, the formation of network outsourcing is usually related to a process of vertical disintegration of a large company (DO) seeking greater flexibility in the limits of the integration method .The formation of this network may also represent a response to expectations of internationalization through outsourcing and subcontracting specialty in countries where production costs are significantly lower or enjoy a proximity to resources. The principal business concentrates on the activities of the value chain that knows well (Poulin *et al*, 1994) and entrusts certain activities to other organizations (ST) which are able to achieve a cost (Poulin *et al*, 1994, Mari, 1996). It is a leader or a qualified contractor" pivot" (Guilhon and Gianfaldoni, 1990), strategic center (Lorenzoni and Baden-Fuller, 1995), hub firm (Jarillo, 1993) or broker (Miles and Snow, 1986). The set composed

by the pivot and its partners is considered as a network of subcontracting. Governance (Mariotti, 2005) or control (Fréry, 1997) the company network are usually conducted by the hub firm (or firm called pivot or kernel). The role of the nucleus is organized around three trained by the Triptych C

Table 1. The role of the nucleus in the company network

<b>Conception</b>	Design the value chain by identifying opportunities for developing new activities, like a strategic analysis cell within a group, and then selecting and contacting external stakeholders likely to participate
<b>Coordination</b>	Coordinate the structure obtained by ensuring the governance of transactions between partners.
<b>Control</b>	Control the structure by ensuring the level of quality achieved by stakeholders, holding strategic assets essential to the survival of the whole, or by sending regular listeners to the subcontractors

Design, Coordination and Control (Fréry, 1997)

Source: Fréry, 1997

### 1.6. The control configurations in the vertical networks: the state of the literature

Ouchi (1977 and 1979) developed a theory of control which focused on the organization, and then applied to the interorganizational context. It has three control strategies:

- Monitoring the market that regulates the competition between firms. Ouchi (1980) has shown that this type of control is ineffective since the transactions proved to be complex. The Control dealer must be based on assessment, compensation and standardization of results, associated with the implementation of incentive mechanisms. The market-type control can be transposed to the interorganizational relationship with application limits due either to the lack of control by the market in its pure form or the complex and expensive systems of evaluation to be implemented or, especially, to the delicate nature of the targets to be met in the context of a relationship in egalitarian principle. (Little John, 2004).
- The bureaucratic control is based on rules and routines and which manifests itself by a direct or mechanical drive. This type of control seems partially transposed to the interorganizational relationships with the limitations inherent in the legal independence of the firms which are involved in the relationship and therefore free, legally at least, to accept or decline the expression of an authority from another firm.
- The social and the cultural control whose operations are based on a set of values shared by the members and allow them to coordinate to achieve the objectives. In fact, the creation of a corporate culture is not only based on the implementation of a selection of individuals with a certain profile but also on the development of common values, norms, behavioral or ideological part of the mechanisms control as well as formal procedures. The control then is applied on the results (or performance), the behavior (or actions and activities) and the identity. Based on the work of Ouchi, Das and Teng (1998) proposed two methods of interorganizational control. The formal control includes control over the behavior and results. It uses codified rules, objectives, procedures and regulations that specify aspects of behavior. The performance evaluation is strict. The positive aspect of this type of control is that it clearly defines the borders. Its disadvantages are that it does not leave much autonomy to the controlled part: rather it is negatively related to trust, in the sense that it can lead to suspicion and stress (especially if it is a control over the results). According to the clan of Ouchi, the social control focuses on organizational values, norms and cultures to encourage a desirable behavior. It is more informal, long term and positively related to trust. The authors therefore consider the notion of trust as moderator of control mechanisms: formal control is negatively based on the trust between the members as it limits the autonomy of the controlled part, while social control is positively related to trust because it creates long-term and informal relationships. If the trust is not a method of control, yet it plays a role in the developed mechanisms (Ring and Van de Ven, 1992 and Das and Teng 2001). Two other factors influencing the level of control are commercial or technical risk (Nogatchewsky, 2006) and closeness (Talbot and Kechidi, 2007). Nogatchewsky (2002) proposes a typology of inter-organizational control which studies the vertical relationship between the automotive and the suppliers. Cleverly using metaphors both the cursor and the stent, it integrates relational view to implementing transactional approach phases of intra organizational control (finalization, monitoring and post-evaluation) by adding selection as Dumoulin did (1996). It highlights

inter- factors (the ratio of power and dependence of parts) and uncertainty factors (the degree of business risk and technical). It further emerged interpersonal factors playing on the ratio of power and control dependency with "emotional" that enables to control the dominant informal. It concludes that the social embeddedness (Granovetter as defined) is then a strategy to dominate actors. This study shows that whoever controls is also subject to formal control, without being aware. In 2006, it uses the same property to combine reading and military control strategies with sociological approaches to power and dependence. It distinguishes two stages: the preparation of war (knowledge of the field) and the conduct of war (control devices). Depending on the degree of mutual dependence, it notes that strategies of knowledge, encouragement, protection and seduction are used in the first stage, bringing a new dimension to the dynamic and contingent control. Concerning the notion of proximity, it addresses the issues related to the forms of coordination within or between firms. Thus, it is in the center of the analysis of the industrial parks of the suppliers (Adam-Ledumois and Renault, 2006) and the location of the distribution networks (Baum and Haveman, 1997; Liarte, 2004). In these approaches, it is often the geographic dimension of proximity which is the key input. Talbot and Kechidi (2007) propose to decline the different dimensions of proximity to integrate institutional and the organizational dimensions of inter-firm relations. Proximity becomes "an analytical perspective that assumes endogenizing institutions, endogenization our view essential to think when the relations of coordination unfold in worlds of action, localized or not, engaging actors who share same benchmarks "(Talbot and Kechidi, 2007).

Geographical proximity is induced by an embedding social and territorial. Institutional proximity designates the sharing and to comply with the ideas, customs, collective habits, prejudices and common set of roles. It corresponds to a "community of ideas and practices" (Talbot, 2006).

Organisational proximity designates the sharing rules and the common organizational routines. In these three versions: institutional or cultural, organizational and geographical "proximity seems to be the space that articulates the coordination and control in the networks of subcontracting" (Talbot and Kechidi, 2007). According Kechidi Talbot (2007), "face to face, favored by geographical proximity is not enough to ensure the compatibility of the behavior of the players." In fact, technological and organizational change affecting the industry require new forms of coordination of the activity or, in any case, accentuate or play down the characteristics of previous methods of coordination. Within an organizational proximity, coordination procedures take two aspects. The first is largely formalized in the subcontracting agreement. The second is much less. It occurs mainly through the implementation of the contractual relationship. In the case of Airbus and its network of subcontractors, coordination appears through a system of meetings, the "Program Review Meeting" (PRM) - the principle is stated in the subcontract agreement. Beyond monitoring the progress of the work and the technical coordination of the activity, these meetings are interpreted as a means of resolving situations which are not specifically covered in the original contract. They are the sign of the impossibility of organizing an entire outsourcing relationship through a set of technical and organizational procedures. But rather a response to the incompleteness of any treaty relations RMC is the case which is, according to the authors significant in the formation of organizational area on which has an effective capacity for action by the contractor. RMCs in their work feel like a tool for integrating the takers of orders.

### 1.7 Towards logic of coordination plural

Traditionally, control mechanisms were studied in intra-organizational control and from formal to informal control which was certainly useful but insufficient in an interorganizational, given the complexity of the relationships. The solution therefore is according to Littlejohn (2004), to adapt two ways:

- The use of an appropriate mechanism for doing this type of configuration of organizational forms separately.
- The combined use of two types of controls (formal and informal) which leads to a hybridization of traditional organizational forms.

The second way is favored by a number of authors who question the taxonomic approach and argue for a hybridization of forms of control (D. Leclere (1995), a "tangle of organizational forms" (Baroncelli and Froehliher, 1998) or the existence of "plural forms" (Bradach and Eccles, 1989). Thus, D. Leclère argues that the problem of managers is not so much to make the choice between one or another mechanism of coordination "to organize the coexistence of heterogeneous processes under different logic and design of hybrid systems reflecting all complexity of organizations alleged to fly". In this context, the effective system of control is no longer a by-product of classical thought but responds more to a pattern resulting from "Engineering hybrid systems for managing diversity". Baroncelli and Froehliher adopt a similar view and argue, in particular, that it must guard "any attempt

by a unique description of coordination method only". They show that the linkages seem characterized by a tangle of institutional and market transactions. Bradach and Eccles are probably the most ardent defenders of a multifaceted approach that considers the view that the control mechanisms (price - authority - trust) are mutually exclusive obscures more than it clarifies our understanding of interorganizational forms. In particular, the subcontracting relationships constitute a particularly fertile field of application for this multi-faceted approach.

## 2. Methodology

### 2.1. Presentation of the case study

The empirical phase of the research was conducted by a case study. The company selected the network is LEONI Tunisia. Three reasons for this choice can be highlighted. Firstly, the LEONI Group is a global Tunisia, world-renowned with a network of subcontracting and therefore engaged in a process of management of the network. Then, LEONI Tunisia evolves in the automotive field research in strategic management deemed as sensitive to managerial innovations. LEONI Tunisia (LTN) is a group company LEONI AG, the giant German specialist in the field wiring. Indeed, it manufactures cables for various types of products, namely, computer, appliances, etc but its main activity is the production and assembly of cable harnesses for the automotive industry. The purpose of the qualitative study is to better understand the reality of the relationship that the company LEONI maintains with its network of subcontracting.

### 2.2. Data collection

To meet the above objectives (i.e. an exploratory study of the company LEONI), we conducted semi-structured interviews with experts. The semi-structured interview based on the use of an interview guide. It consists of three main themes, it is, firstly to understand the politics that LEONI develops from its suppliers, and, secondly, to identify ways of managing supplier relations, in particular the control mechanisms that are deployed:

- The first theme focuses on the procedures for selecting suppliers.
- The second theme focuses on the contractual aspects developed.
- The third theme focuses on how to control providers: expectations, goals, management, evaluation, rewards, sanctions, relational modalities, suppliers.

### 2.3. Data analysis

Our choice was naturally inclined to thematic analysis "where the topic, ie the unit of meaning is the cutting unit, coding and analysis" (Evrard, Prasad Roux, 1993). This analysis leads to the development of an analytical framework composed of themes identified after reading the transcript and interviews. It allows to "undo somehow the singularity of speech and cut transversely in an interview that the other refers to the same theme. [...] It seeks thematic coherence inter-interviews "(Blanchet and Gotman).The thematic grid that we used includes the following topics:

- The process of outsourcing is at the heart of the strategic network reconfigurations of LEON
- The control mechanisms deployed to monitor subcontractors.

These themes structure the presentation of the results of the qualitative analysis.

## 3. Interpretation of results: the configuration of control in the outsourcing relationship

### 3.1. Subcontracting is at the heart of strategic network reconfigurations LEONI

Since the seventies, a policy of outsourcing certain activities has been conducted, accompanying the movement of the network focuses on its core competencies LEONI. Trades were transferred to suppliers who acquire the status of equipment. Some transfers are justified for reasons of industrial efficiency. In other words, LEONI is not large enough to produce some elements efficiently. Others are due to the notion of critical competency. These activities (such as electrical control e.g. with the electronic society SLE) that LEONI considers it appropriate to duplicate outside. The activities carried out internally are of three types:

- complex products;
- optimizing the use of assets to invest heavily;
- services for short cycles (on assembly lines) that offer the personalization of related outsourced activities;
- the complexity of the products which are not stabilized;
- outsourcing of complete sub-assemblies (which is troublesome).

The use of external actors has grown in recent years, leading to questions about LEONI management and control of all subcontractors.

### 3.2. Process control

Book (2001) identifies three stages in organizational control: finalization, monitoring and post-evaluation. Our analysis will focus on distinguishing these three moments of control. Since our study focuses on the relationship between LEONI (prime contractor) and subcontractors, we also study a fourth upstream phase: selection.

#### 3.2.1. Selection

The selection of suppliers based on the possession of certain quality standards. A set of standards, controls and rules are needed to obtain approvals. The leading suppliers are required to be standardized TS 16949. The approval of a subcontractor is subject to an evaluation audit sections where severe quality assurance and controls are central. The subcontractor is responsible for carrying out in the "rules of art". The subcontractor must make specific investments required by the contract and make a plan approved by the principal. On these two aspects, the information provided to the client orders relate to the quantity and quality of staff.

Beyond competitive pricing, selection criteria concern the quality of the supplier's organization and its technological capability, financial strength, the existence of antennas proximity LEONI especially belonging to the network LEONI AG. These criteria can be divided into two categories. The first includes the provider itself, and aims to ensure its competitiveness in terms of quality, costs and deadlines (QCD), its innovation and its financial sustainability. The second aim focuses on the relationship and the closeness between LEONI and its supplier. It is interesting to note that some experts stated personal criteria in their choice of the suppliers, which are less formal, such as the attitude of the contractor in terms of its willingness to cooperate. From the selection phase, the social elements fit into the economic relationship, which tends to confirm the proposals Granovetter (1985) on the embedding of personal relationships in the economic transactions.

#### 3.2.2. Finalization

The terms of the agreement focus on three elements QCD (Quality Cost Time), as well as volumes. The negotiation of these objectives is generally annual (such as budget), but it can also occur when a new fact arises (variation of commodity prices, new competitors ...). If the budget is the translation and the variation objectives for organizational internal control, the contract is, among others, for the budget for inter-organizational relationships. LEONI has three types of contracts, which are detailed below:

- The contract program;
- The development contract;
- The partnership agreement.

#### 3.2.3. Steering

Each buyer manages a portfolio assigned to suppliers in order to monitor the performance of the criteria mentioned above. However, these are not all measured by the buyers. Three explicit methods of control are applied to assess the transaction:

- Price control is centralized. Objectives related to factor prices are set annually and monitored monthly.
- The timeliness of the delivery and the associated quality are controlled.
- However, the control of the quality is not systematic.

Indeed, the indicators measure the quality of the service provider as the indicator (PPM nonconforming parts per million parts produced). In fact, poor indicators trigger an audit. Supplier audits aim to check whether the data are reliable and if technical knowledge of the production cycle and potential improvements is good. Indeed, LEONI requires its suppliers to specific production processes, in the case of vital parts, the operating range is fixed. These processes should be known for LEONI. In audits, the "Quality Assurance" and the "means of control" are the coefficients of the highest rating. Systematic assessment of subcontractors leads to a ranking in four categories, according to levels of overall quality. This classification can be challenged at any time. This accreditation is therefore a strong incentive to maintain or even improve the achieved quality levels. Mechanisms of social control are present. In fact, inter-organizational meetings take place in the presence of representatives of firms, quality, purchasing and production. They stand on the site of Sousse Messaadine. It is moving towards a different relationship with suppliers to pass the simple transaction of collaboration "should be." It is to develop a trusty relationship with the supplier. It seems that the "major suppliers" are most likely to benefit from this type of relationship, through the value added services

### 3.2.4. The post-evaluation

The post-evaluation phase is rather ambiguous. It appears in the case of the relationship between prime contractor and subcontractors. It actually translates into the implementation of sanctions (penalties for late simple transfer of production to another supplier if possible) and rewards (granting new markets, proposal to the panel of preferred suppliers, co-develop future products). It is therefore clear that the contracts include clauses of penalties. Thus, it is possible that each day of delay, financial penalties amounting to 1% of the price of the device to be charged to the defaulting supplier. These are however rarely applied, but the anomalies can be used as an argument in a future negotiation. The supplier evaluation staked in fact different stages of development of the relationship more than it is a phase in a process of feedback control

## 3.3. Control modes subcontractors

### 3.3.1. Supplier portfolio: a double typology

The identified and different types of relationships differ. They depend on the level of commercial and technical risk for the contractor, and the existence of closeness between prime contractor and subcontractor. The first typology is to identify the suppliers according to their level of risk for LEONI. It identifies providers at risk (in the sense that their dominant position on the market makes LEONI dependent) and those offered service has a strategic character for LEONI. It is therefore the level of commercial and technical risks for LEONI. Technical risks are related to the specificity, the life of the product, technology, process or product, at the strategic level of the benefit provided by the subcontractor. Business risks can be identified by the degree of concentration of industry suppliers, price volatility, trade relations from a supplier with a competitor and the existence of countervailing market.

The second type is to identify the suppliers according to their proximity to LEONI. In fact, the nature of the relationship developed with the supplier (subcontractor), and more precisely the degree of closeness operated (geographical proximity, proximity institutional and organizational) made the second axis of classification suppliers. Institutional proximity, or called cultural proximity, meaning the sharing and to comply with the ideas, customs, habits collective prejudices and common set of roles with the supplier. Organizational proximity designates the sharing rules and the organizational Common routines. More specifically, the relationship of proximity between suppliers and LEONI is illustrated by the recent membership of the LEONI Group AG or by referencing the group LEONI AG.

### 3.3.2. Control modes for different types of relationship

Two dimensions are used to classify the suppliers: the level of risk and the degree of closeness. Each of these dimensions is divided into high and low. Suppliers are then positioned on the following matrix, which aims to match the methods of control f identified relation types.

High proximity	Ideal situation	Partnership
No proximity	Mise en concurrence	Critical situation
	Weak risk	High risk

Figure 1. Positioning of the suppliers

Four groups of suppliers are identified by LEONI and control is then differentiated.

#### 3.3.2.1. When the risk is low

In a situation somewhat risky for the client, control is exercised primarily on the results in terms of price, quality and deadlines. The penalty is high. The customer does not hesitate to move production to another supplier if the expected results are not there. Control is mainly formal. However, we can distinguish two different types of relationships based on the existence of relationship of proximity between the prime contractor and its subcontractors: the competition and partnership.

There is no proximity between the prime contractor and its subcontractor in the competition. This is comfortable for LEONI. The products are usually standardized and competitive and the intensity among



subcontractors is high. This led to negotiations on prices on the decline. Bargaining power is on the side of LEONI. The "competitive" can relate to the form of governance by the market (Williamson, 1979) in which the control is done by price. The lack of proximity makes it easy substitutability of co-contractors. Divergence of interests is maintained by the transaction. This form of relationship is reflected in the search for a compromise permanent prime contractors offer sales to subcontractors in part against interesting prices.

There are strong links between the prime contractor and subcontractor ideal situation I. In this situation, the market is highly competitive and the products are usually standardized. This is an ideal position for the company because it is not only the products which are standardized and do not have a strong interest for the achievement of LEONI, but it also has a power that is favorable, thanks to the closeness it holds with its subcontractor. The balance of power in favor of the customer it provides a lot of information on results, behaviors and actions. The power of the prime contractor allows him to exert pressure on the subcontractor.

However, as the subcontractor is close to the prime contractor (closeness), the more it tries to communicate with him, to maintain personal relations with the buyer to create, if not friendship, less benevolence. This is why the power of the client does not automatically translate into the implementation of coercive influence. This is consistent with the sociological analysis of Granovetter (1985), for whom social satisfactions emerging economic relations. Paradoxically, it is not when the ratio of economic strength is explicitly in favor of client influence is more coercive, but when both parties are weakly connected in terms of proximity and control is more formal. Personal relationship allows individuals to develop hand and other informal control mechanisms that fall within the formal control.

### 3.3.2.2. When the risk is high:

In a risky situation for the client, there are two cases:

- There are strong links between the prime contractor and the subcontractor, an ideal situation. In this situation, the benefit provided by the subcontractor is highly strategic. The products are specific and proximity relationships between the two parties. This situation should be preferred in the creation of partnerships. For Suppliers designers, the partnership is only possible when the balance of power is balanced. Putting the relationship in the foreground, the partners recognize that individual interests through the realization of mutual interest. Specifically, the partnership involves co-development, sharing certain skills as well as the development of suggestions from suppliers to improve the process, the product. The partnership seems to be a winning strategy for both parties and the best way to coordinate the long-term activities. In a partnership relationship, control seems more complete, practicing both outcomes (quality, cost, time), on the behavior and actions and the identity and culture. Pressure on results is less intense when the situation is somewhat risky for the contractor. Formal control and informal control (including many personal relationships fostered by close ties held between the parties) are developed simultaneously and appear as complementary to ensure the cohesion of the two firms and the coordination of their activities.
- There is no proximity between the prime contractor and its subcontractor the competition. This situation is most critical for LEONI. Products not only have a strong interest in the objectives of LEONI, suppliers have a balance of power in their favor, with high barriers to entry and the products in question are often very specific, but not LEONI has no relation with local subcontractors. Mutual trust between suppliers and LEONI appears as the only way to control the relationship. In a situation where the Buyer is in a power struggle is against him. Control results may occur if the prime contractor knows the measure, but this is difficult to implement (especially in the absence of organizational proximity between the parties). The penalty is also difficult to implement (especially in the case of monopoly suppliers). Transparency does not exist. Trust is difficult to tune. Buyers are looking for any information on these suppliers, and trying to develop informal relationships or emotional in order to win the favor of the subcontractor or limit the exercise of its power. Informal control is the method of control preferred by buyers in their relationships. Considering a power which is unfavorable or buyers wishes to overthrow the balance of power by seeking other subcontractors (having a close relationship with them), or other certifying technical or other products, which would bring them back in a less risky balance is the balance of power in themselves becoming important suppliers.

## Conclusion

Methods of relationship management with suppliers, especially methods of control are a real concern for businesses. Indeed, in the great movements of outsourcing and strategic reconfiguration, the control mode is rooted in the policies of companies and is translated into strategic plans and organizational. The need to select the suitable suppliers and develop control mode suitable to the relationship developed with each of them is

strongly felt by the focal companies as key to efficient control through the research that we conducted, we can, according to business leaders:

- Identify the existing methods of control;
- Explain the methods of control by the characteristics of suppliers;
- Assist in the management and control including supplier relationship.

Identification of methods of control is facilitated by exploratory research and the questionnaire: this questionnaire, easily adaptable to the specific context of each company can fairly easily gather information essential to the determination of the methods of control. It becomes a tool for structuring existing information acting as developer, as the chemicals used to develop photographs. The use of the level of risk to the customer orders efficiently used to identify the characteristics of suppliers across asset specificity and strategic level of service offered. The decision maker can firstly analyze its portfolio provider according to universal criteria to reflect its diversity, and secondly to ensure consistency in the management of supplier relationship. The report includes various elements such close proximity, cultural and organizational (such as knowledge of production costs, control of replenishment time and commitment to actions co-development or co-design). Aid in the management of these relationships based on the following observation: the methods of control are evolving. In fact, the relationship is built over time as confidence and should be directed by considerations related to the characteristics of the provider. Provider characteristics are determined by its proximity to the focal company and the risk it poses to the focal company. This is why the research carried out here can help decision makers to identify control methods currently deployed, but also by studying the characteristics of suppliers, to detect possible inconsistencies and especially to prepare the changing patterns of control in line with the desired objectives (short-term or medium-term).

Thus, the managerial implications of this research are they focused on the construction of meaning for the company (provide consistency in the management and control of suppliers), the decision aid (to ensure a match between the mode control and the relationship with the supplier) and the development of a more forward-looking, dynamic (to change control modes based on objectives and outcomes of the relationship with the supplier). The main limitation of our qualitative research concerns the external validity. Our study of situations based on the observation that donor relations orders has with its subcontractors. This leads us to be cautious about how to generalize our results.

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