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Relationship maintenance: the heart of SCM

Friday 31 March 2006

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If you are a manager of supply contracts — whether from the supplier or the customer side of the fence — you might well lie awake at night trying to work out how to remove people from the picture.

After all, so many contract performance issues can be traced back to "people problems" — poor communication, mistrust, conflicting egos, confusion, personnel changes, personality clashes, and short attention spans, to name but a few.

The good news is that you don't need to get rid of the people to overcome the people problems. What this article will demonstrate, however, is that you do need an effective strategy for getting the people working together.

Getting to the heart and soul of your supply chain

Companies routinely enter into supply and partnering arrangements as a means of enabling a wide range of business outcomes. The last decade has seen a dramatic evolution and uptake of increasingly sophisticated sourcing and supply chain management strategies.

Those strategies aim to ensure that the potential benefits of supplier arrangements are realised and potential problems accounted for.

The quest to achieve further value from supply arrangements has led many experienced managers to recognise that the "heart and soul" of these arrangements has been overlooked: the human element.

The story of Boxco

Take the example of national (fictional) manufacturing company, Boxco. For some time, Boxco had successfully managed its own logistics functions, such as warehousing and transportation. But with the growth of Boxco's core business, the company decided to outsource those support functions.

A tender notice was published, numerous responses received and a supplier chosen: Logic Sticks (also fictional).

Boxco, itself a key supplier to many companies, drew on its customers' practices as a model for establishing its own approach to procurement. It established a set of risk profiles, project guidelines and milestone maps.

The company engaged a top-tier legal firm with extensive experience in logistics supply contracts to draft clauses that would protect it against associated risks.

During and after the tender process, Boxco's lawyers engaged in negotiations with the winning contractor's own lawyers to finalise the contract, in parallel with the commercial negotiations between the two companies' senior managers. A two-year contract was signed, champagne corks were popped and the trucks started rolling.

For the first few months, everything seemed to be going well.

Then the disappointment began to creep in. Boxco observed that Logic Sticks' senior managers had seemingly disappeared from the face of the planet, making it very difficult for Boxco to gain access to decision makers at short notice.

Boxco's customers were telephoning with questions that could (and should) have been



resolved at the time of delivery.

Apparently clear project guidelines weren't being followed. Logic Sticks was arguing over the intended scope of work. This definitely wasn't the trouble-free partnership Boxco had hoped for. In an attempt to resolve these problems, Boxco insisted that Logic Sticks accept a number of changes to the contract's terms and conditions, following on from which Boxco was able to impose and recover a number of penalties for a range of contract breaches.

The Boxco executive managing the Logic Sticks contract — Paula — was finding herself increasingly busy preparing, filing and negotiating breach claims and liaising with her legal team. As a result, Paula had little time to focus on other, forward-looking strategic issues.

Paula quickly realised that Boxco faced an important choice: terminate the contract (itself a costly decision, carrying with it the expense and inconvenience of going through the process of setting up a whole new relationship), or find some way of pulling things back on track.

Learning from challenging times

Boxco's case is an excellent example of a supply contract that has derailed not because of poor contracts and technical processes, but because of a failure to adequately manage the heart and soul of the contract — the people behind it.

In this instance, Boxco had fallen into the all-too-common trap of trying to manage the supply relationship entirely through a contract. The flipside of Boxco's approach was that it had left Logic Sticks feeling that they were constantly being pummelled by Boxco's legal clout and, as a consequence, trying to find ways to defend itself.

Neither party was really solving the problem, but reacting to it by drawing on their legal rights — a vicious and ultimately adversarial cycle.

Paula is of course entitled to expect that Boxco's rights should be protected if Logic Sticks isn't doing what it is supposed to under the contract. But the failure of a high-risk supply relationship such as the Logic Sticks contract is a critical provocation to ask a simple and important question: what is causing the breakdown?

Getting to the core of the problem

The early (and happier) days of the contract demonstrated that Logic Sticks had the capacity to satisfy Boxco. Equally, Boxco felt satisfied that its contract had adequately defined what needed to be done, because of its own investment in both legal and commercial negotiations at the outset.

So where did things go wrong? Ultimately, Boxco is faced with symptoms of a more fundamental problem: a lack of relationship alignment.

As with any supply contract, the realisation of a contract's actual and potential benefits is up to the people who are charged with performing it. But if those people don't enter into the relationship aligned in their thinking and core assumptions, it can be expected that difficulties and discrepancies will arise.

Companies frequently attribute failed supply contracts to issues such as personality clashes, mistrust and cultural differences — high level, intangible concepts that point broadly in the direction of the relationships between people.

But the intangibility of these concepts is also reflected in the difficulty that most managers have in addressing such problems. After all, trust can't be created through a clause in a contract.

Common responses are to attach consequences (such as penalties) to particular behaviours, ignore the problem, replace the people or, even more dramatically, terminate the contract altogether.

If, however, these relationship problems are to be solved at their core, managers must identify and understand them with greater clarity and meaning.

Relationship alignment

It is important for Paula to recognise that the quality of the relationship between Boxco and Logic Sticks is determined by the perceptions that Logic Sticks (through its key stakeholders) have of Boxco, and vice versa.

Similarly, Logic Sticks' behaviour within the supply relationship is shaped by its assumptions about a range of fundamental issues, such as:

- the objectives of the supply relationship
- its role in achieving those objectives
- how success will be measured, and
- how problems along the way are to be dealt with.

This way of thinking will allow Paula to respond to the problems she is experiencing with Logic Sticks by focusing on the conflicting perceptions and assumptions that underlie the crumbling relationship.

Ultimately, Paula's objective should be to achieve alignment: where the key stakeholders in both Boxco and Logic Sticks understand and, where possible, share the other's core assumptions.

The best way for Paula to achieve this kind of alignment at this advanced stage of the supply contract is to engage in a structured dialogue with Logic Sticks aimed at solving the current contract problems, rather than reacting to them.

Achieving alignment: learn and solve

To ensure a problem-solving approach, Paula should consider structuring her dialogue with Logic Sticks across the following four stages:

1. What are we talking about?

It will be important to anchor the discussion in the real world. Key players from Boxco and Logic Sticks should identify some of the key events or behaviours that they can both agree suggest there is a problem — such as late deliveries, diminished access to senior management, and the lack of feedback — without worrying about who is at fault.

They should also be sure to identify what the preferred situation might look like in the future. This gives the discussion something to aim for, rather than becoming bogged down in an analysis of the past.

2. Why has it happened?

Boxco and Logic Sticks should then each explore the sorts of assumptions and perceptions that might have led to the events and behaviours in question (such as those listed in the sidebar referred to earlier).

It will be critical for Paula to keep the discussion two-way: the initial aim should be for both Boxco and Logic Sticks to learn about the other's perspectives on the situation, not to cast blame. Ultimately, the objective of this second stage is to identify the extent of the misalignment regardless of who or what has caused it.

3. How could we fix it?

Boxco and Logic Sticks should then turn their dialogue towards the future, by jointly brainstorming a range of possible actions based on their new understanding of where they have been misaligned in the past. Again, the focus here is on problem-solving, rather than allocating blame for past events.

For example: Boxco is disgruntled about the lack of access to Logic Sticks' senior management team, and Logic Sticks believes that its senior managers aren't supposed to have a role in project implementation.

That being so, possible approaches might include:

- establish a key senior contact within Logic Sticks, with sufficient authority and commercial awareness to deal with high-level issues
- determine a protocol for when and how Logic Sticks senior management can be accessed on contract issues
- ensure that existing, less senior contacts are sufficiently skilled and authorised to handle disputes.

4. What are we going to do?

Finally, the parties will need to craft an action plan for improving the situation, by distilling and refining the brainstormed ideas, and weighing them against their goals as identified in the first stage.

A final overview

In contrast to an approach that draws on contractual rights and obligations to shepherd the actions of parties to a supply relationship, this structure is inherently forward-looking: it focuses the parties on designing a solution that deals with the misalignment between them.

Furthermore, by spending time developing an understanding of each other's perspectives, the parties dramatically increase their chance of achieving alignment in the relationship going forward.

And finally, by considering possible solutions only after they have exchanged their perspectives, Boxco and Logic Sticks are likely to have learned enough to invent a solution that will be meaningful, thus contributing to a more valuable supply relationship going forward.

And, ultimately, that means more sleep for contract managers.

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