

Role of Strategic Leadership of a Firm in Successful Implementation of Supply Chain Management: Implications for Sri Lankan Managers

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Abstract The role of strategic leadership of a firm within a supply chain is an antecedent to the successful implementation of supply chain management. A strategic leader of the firm should interact and work with different value chain within the supply chain to add and deliver value to the final customer. The most important roles of the strategic leader dealing with the member value chains include cultivating a supply chain orientation within the firm, designing the supply chain network structure, organizing the supply chain business processes and putting supply chain practices into effect. Managers must realize the characteristics of national culture and cultivate consistent and uniform supply chain orientation within the firm in applying the supply chain orientation and implementing the supply chain practices in Sri Lankan companies.

Introduction

Organizations are complex social systems of coordinated and integrated behaviour, which affect all members at some time or another (Anderson and Kyprianou 1994). In the process of organizing, the behaviour of employees needs to be coordinated and directed to maximize result (Huczynski and Buchanan 1991). Leadership which embodies a process of moving groups of individuals in a desired direction through largely non coercive means (Kotter 1988) plays a vital role in organizations. Leaders provide direction and facilitate the processes that enable organizations to achieve their goals and objectives (Zaccaro and Klimoski 2001). Leaders not only directly influence the behaviour of members, but their actions also influence the perceptions of members which lead to norms and expectations of appropriate conduct that become ingrained in the organization's climate. Leaders' actions both directly and indirectly establish the ethical tone of an organization (Grojean *et al* 2004). Leaders can impact on organizational outcomes through either direct means, such as formulating cooperate level strategy, or by indirect means, such as effectively managing the symbols that help build commitment of employees to organization (Pfeffer, 1981). Direct means often involve the application of influence and /or political power applied either externally or

internally. Indirect means such as creating and maintaining a favourable public image often require that leaders be effective symbols or good communicators. Similar skills applied internally may be crucial in creating an organizational climate and culture that motivates and retains employees (Day and Lord 1988).

Leadership roles vary in terms of the level of the organization. Leadership at lower levels is qualitatively different than upper level leadership (Day and Lord 1988). Katz and Kahn (1978) and Mintzberg (1973) have noted the qualitatively different nature of managerial and leader roles across the levels. According to Katz and Kahn (1978) leaders at the top levels create organizational structure, formulate policy, and develop corporate strategies. Middle level leaders interpret and elaborate structure, policy, and strategy. Lower level leaders use technical knowledge, rewards, and sanctions to administer existing structure. In the same context, Webster (1992) contends that the corporate level leaders define what business the company in, determine the mission, vision, and shape and structure of the firm. At the business unit level, leaders determine the orientation the firm adopts to compete, including the particular core competencies developed at the functional level to achieve a competitive advantage. Functional leaders facilitate the creation of specific capabilities that contribute to core competence (Stank *et al* 2005) Strategic leadership is concerned with leadership of organizations, and includes chief executive officers and other top level executives (Boal and Hooijberg, 2000). Strategic leaders focus on broad policies and objectives, planning and controlling and provide a strategic vision that unifies the organization and provides a plan for the future (Grojean *et al* 2004). Strategic leaders establish and communicate a unifying vision; make strategic decisions; establish structures, processes, and control systems; manage relationships with multiple constituency groups; develop important organizational capabilities; develop new leaders; create and manage and the organization's culture and climate; and establish the organization's ethical value system (Hickman 1998; House and Aditya 1997; Ireland and Hitt 1999). In contrast, more direct leaders coordinate sub system operations and provide day-to-day directions, counsel and mentoring to organizational members. The actions of direct leaders provide an immediate indicator of appropriate behaviour. Different transmitting mechanisms are likely to be used by each of these groups to embed values and expectations into the organizations (Grojean *et al* 2004). Thus, the strategic leadership is very important for both the internal organization performance and external relationship development (Day and Lord 1988; Kotter 1990). ---

There are considerable discussions about the importance of firm's leadership role as an antecedent to the successful implementation of Supply Chain Management (SCM). For example, Lambert *et al* (1998)

suggest that top management support, leadership, and commitment to change are important antecedents to the implementation of SCM. In the same context, Mentzer *et al* (2001) contend that the presence of constructive leadership capable of stimulating cooperative behaviour among participating firms is very important for the success of supply chain management. Similarly, Loforte (1991) (cited in Mentzer *et al* 2001) asserts that the lack of strategic leader support is a barrier to SCM. Despite the theoretical and managerial importance ascribed to firm' strategic leadership, less emphasis has been devoted to discuss the role of the leadership of a firm directly involved in supply chain in successful implementation of SCM. The lack of attention to the role of the firm's leadership is a serious omission in the development of successful supply chain management practices.

The purpose of this study is to examine and identify the critical roles of strategic leadership of a firm within a supply chain, that impact successful implementation of SCM from a focal firm's perspective. The study is basically a theoretical normative one, which adopts the perspective of attempting to prescribe what strategic leaders of the firm in supply chain ought to do and what principles they ought to apply in implementing supply chain successfully. The study is mainly based upon representative academic literature from several disciplines such as organizational behaviour, marketing, social psychology, and supply chain management. The literature on supply chain management was reviewed mainly from supply chain management, logistics, operational research and marketing journals. The literature on leadership was taken mainly from organizational behavior, social psychology and applied psychology journals. This paper also reflects various views of the authorities in the fields of supply chain management and findings of the empirical researches. First, the paper discusses the role and appropriate style of the leadership in establishing a supply chain oriented culture within the firm and the mechanisms that will aid in systematically transmitting the supply chain oriented culture throughout the organization. Secondly, it discusses the role of the leader in determining the supply chain network structure. Thirdly, it discusses the role of leadership in coordinating, supervising and implementing the SCM business process and practices. Finally it presents the implications for practicing managers in Sri Lankan context, followed by concluding remarks.

Supply Chain Management and Supply Chain Orientation (SCO)

Mentzer *et al.* (2001, p.4) define supply chain as "a set of three or more entities (organizations or individuals) directly involved in the upstream and downstream flows of product, services, finances, and /or information from a source to a customer." The importance of well-executed supply

chain management (SCM) has become widely recognized in both academic and applied business literature (Bowersox *et al.* 2003; Srivastava *et al.* 1999). Recent academic researches view SCM as a strategic level concept. Mentzer *et al.* (2001, p. 18), for example, define SCM as “the systemic, strategic coordination of the traditional business functions within a particular company and across businesses within the supply chain, for the purposes of improving the long term performance of the individual companies and the supply chain as a whole.” Lambert *et al.* (1998) consider the SCM as the integration of key business processes across the supply chain for the purpose of adding value for customers and stakeholders. Each of these definitions highlights the fact that the objective of SCM is the creation of strategic differential advantage obtained by the total value delivered to end-users.

A prerequisite for implementation of SCM is the fostering of a supply chain orientation (SCO) inside the firms directly involved in the supply chain (Min and Mentzer (2004). In other words, companies implementing SCM must first have a SCO. Mentzer *et al.* (2001, p.11) define SCO as the “recognition by an organization of the systemic, strategic implications of the tactical activities involved in managing the various flows in a supply chain.” SCO adopts a systems approach to viewing the supply chain as a whole and to managing the total flow of goods inventory from the supplier to the ultimate customer. It also predicated a perspective that favours cooperative efforts to synchronize and congregate intra-firm and inter-firm operational and strategic capabilities into unified whole (Mentzer *et al.* 2001). The actual implementation of SCO, across various companies in the supply chain, is called SCM (Min and Mentzer 2004).

The leadership of a firm within a supply chain plays crucial roles in working with different value chains in a value system. These roles include shaping the supply chain oriented culture in the respective firm, determining the supply chain network structure, coordinating and supervising the supply chain business process, and implementing SCM practices (Cooper *et al.* 1997).

Leadership Role and Supply Chain Oriented Culture

Creating an organizational climate and culture that motivates and retains employees is a crucial role of top-level leadership. Decision founders and other top leaders in the early stage of the organization's life cycle have a profound impact on the development of an organization, and lead to the creation of strategies, structures, climate and culture (Schein 1992). Additionally, leaders throughout all stages of the organization's life cycle and all organizational levels continuously shape the organization's culture and climate by providing meaning to policies and practices through the

manner in which they enact the organization's goals and strategies (Wimbush and Shepard 1994).

However, fashioning a unified value system is not simple task. Anthropologists and organizational scientists agree that changing culture is an extremely difficult process (Sims 1984). The human tendency to want to conserve the existing culture is referred to as 'cultural persistence' or inertia (Sims 1984). Maund (1999) states that people are not machines that can be programmed to meet organizational objectives unquestioningly. Individuals carry their own personal needs, skills, belief, attitudes, and aspirations with them to the work place and many of these may be independent of (or even conflict with) the structure and belief of the organization (McAleese and Hargle 2004) since organizations have different form of cultures. Since individuals bring their personal values, attitudes and beliefs to the work place, their levels of commitment and fit to the organization culture may differ. Furthermore, each working group develops its own sub culture by adopting forms of language and modes of behaviour that identify it as different from other units. Managing the boundaries between such diverse belief systems is crucial if cultural conflict is to be avoided. The articulation of these multifarious systems falls to the leaders of the institution. By creating a vision of what the organization is for and communicating it to members, individual interest can be related to the group purpose. This requires leaders to be sensitive to the needs and aspirations of followers, since they must be enabled to reframe the psychological contract between individuals and organization in ways that harness loyalty and commitment (Rowse and Berry 1993). Individuals have been shown to experience some rearrangement of individual value system by understanding and accepting the values of a particular organization (Cable and Parson 2001; Chatman, 1991)

Changing culture is a lengthy process requiring considerable resources and top management effort. Schwartz and Davis (1981) identify three prerequisites for changing a culture. First, the strategy and all its elements must be explicitly stated. Second, the current culture must be analyzed and made tangible, and finally, the strategy must be reviewed in the context of the culture to determine where the risks are. An organization's culture is best altered by gradually reducing the perceived differences between current norms and the new behaviour, increasing the values that the culture paces on adaptability and enhancing the ability of the leaders involved to effect the desired change. However, all steps must be prefaced by strong top leadership creating the pressure for change coupled with new top management behaviour that sets the example. It is also necessary to have a united front at the top for the sake of sending consistent messages to other managers (Schwartz and Davis 1981)

Similarly, the challenge of cultivating or developing supply chain oriented culture is often primarily an organizational one and depends on top management leadership. Strategic leader's vision plays a critical role in shaping an organization's direction, values and orientation (Kotter, 1990; Hambrick and Mason 1984). He/she must first realize the significant of strategic, operational and market impact of applying supply chain oriented culture to the his/her firm (Mentzer *et al* 2001). Brown (1992, p. 3) asserts that "leadership is not just a rational or technical activity, and organizations cannot realistically be designed along purely scientific lines. Managers do not merely plan, budget and control, they also help create a culture that is rich in meaning and emotion. Organizations are, after all, social entities populated by individuals, not inanimate machines." Since organizations are open systems and they must interact with their environment, leaders can affect organizational performance by actions that operate on the external environment or they can operate on the internal environment to influence factors such as operating costs or product quality (Day and Lord 1988). Leaders can impact on organizational outcomes through either direct means, such as formulating cooperate level strategy, or by indirect means, such as effectively managing the symbols that help build commitment of employees to an organization (Pfeffer, 1981). Organizations are in essence socially constructed realities that rest as much in the heads and minds of their members as they do in concrete sets of rules and relations. Organizational processes are shaped by their cultural context that provides a medium for patterns of shared meaning to emerge. It is the shaping of that culture that constitutes the prime responsibility of leadership (Rowell and Berry 1993). As Bass and Avolio (1993, p. 112) state "*effective organizations require both tactical and strategic thinking as well as culture building by its leaders. Strategic thinking helps to create and build the vision of an agency's future. The vision can emerge and move forward as the leader constructs a culture that is dedicated to supporting that vision. In turn, the vision may also determine the characteristics of the organization culture.*"

Leadership styles and Supply Chain Oriented Culture

A leader himself/herself may not have the authority to unilaterally make such changes. Pfeffer (1977, p. 107) clearly explains this condition as "*leaders, even in high level positions, have unilateral control over fewer resources and fewer policies than might be expected..... Leaders behaviour is constrained by both the demand of others in the role set and by organizationally prescribed limitations on the sphere of activity and influence.*" Thus, changes require the agreement of management teams. Attaining such agreement often requires the application of social influence that goes beyond one's formal position. Such influence falls within

common definitions of leadership as being an influence increment going beyond the formal powers associated with one's office (Katz and Kahn 1978). Tushman and Romanelli (1985) emphasize that organizations cycle through periods of relative stability and periods of radical reorientations and changes. Though reorientations are often precipitated by external factors, they argue that executive leadership is critical in both overcoming internal resistance to change and in guiding the reorientation. Moreover, how effectively top-level leaders manage such reorientation is a crucial determinant of organizational performance. A leader will have to be more than merely a manager; a leader will need to develop followers, raise their need levels and energize them, and promote quantum positive change in individuals, groups, teams and even entire organizations (Avolio *et al* 1991).

While numerous factors influence the development of supply chain oriented culture, the style of leadership has the greatest influence over it. Bass and Avolio (1993, p.113) assert "*there is a constant interplay between culture and leadership. Leaders create mechanisms for cultural development and the reinforcement of norms and behaviours expressed within the boundaries of the culture. Cultural norms arise and change because of what leaders focus their attention on, how they react to crises, the behaviour they role model, and whom they attract to their organizations. The characteristics and qualities of an organization's culture are taught by its leadership and eventually adopted by its followers.*"

Burns (1978) identified two types of leadership: transactional and transformational. Transactional leadership occurs when "leaders approach followers with an eye toward exchange," (p.4). Contingent rewards and management by-exception styles of leadership, characterize transactional leaders. They develop exchanges with their followers, pointing out what the followers will receive if they do something right as well as wrong and work within the existing culture, framing their decisions and action based on the operative norms and procedures characterizing their respective organizations (Bass and Avolio 1993). Transformational leaders, in contrast, attempt to use intrinsic motivation to inspire others to go beyond personal interest and work toward a higher collective purpose, arouse heightened awareness and interests in the group or organizations, increase confidence, and move followers gradually from concern for existence to concern for achievement and growth (Grojean *et al* 2004; Yammarino and Dubinsky 1994). Transformational leadership goes beyond the attempts of leaders who seek to satisfy the current needs of followers through transactions or exchange via contingent reward behaviour (Bass 1985).

The two styles of leadership may impact organizational culture in different ways. For example, transactional leaders work within their organizational cultures following existing rules, procedures, and norms; transformational leaders change their culture by first understanding it and then realigning the organization's culture with a new vision and a revision of its shared assumptions, values, and norms (Bass 1985). Transformational leaders help to realign the values and norms of their organization, and when necessary, to accommodate and promote both internal and external change (Avolio, Waldman, and Yammarino 1991). How leaders react to problems, resolve crises, reward and punish followers are all relevant to an organization's culture as well as how the leader is viewed both internally by followers and externally by clients/ customers (Bass & Avolio 1993). According to Bass and Avolio (1993), transformational leaders who build on assumptions such as people are trustworthy and purposeful; every one has a unique contribution to make, and complex problems are handled at the lowest level possible and articulate them to followers, foster a culture of creative change and growth rather than one which maintain status quo.

Transformational leadership approaches will help to increase the acceptance of the organization values leading to greater congruence of values between the followers and the organization (Grojean *et al* 2004). The dimensions of transformational leadership may impact climate of an organization in different ways. For examples, intellectual stimulation which encourages followers to question their own, as well as the leader's and organization's values, beliefs and goals prevents employees from keeping blind faith in leader. Blind faith in leaders locks the organization into a cycle of self-affirming processes that maintain a self-identity out of tune with reality (Rowse and Berry 1993). These traps are called psychic prisons. The cultural prison is reinforced by members who endow leaders with magical qualities which raise the leaders' self-esteem and establish narcissistic tendencies which result in obsessive needs for self-preservation (Rowse and Berry 1993). Dimensions of idealized influence and inspirational motivation of transformational leadership inspire followers to accept the leader's vision and collective values of the group. House and Shamir (1993) suggest that charismatic aspect of transformation leadership influence the hierarchy of values and identities within a person's self-concept. As a result, followers' identification with the collective values is a more salient aspect of the self-concept; followers internalize the values and goals of the leaders; followers become personally committed to these values and goals; and followers become willing to subordinate their own interest to work toward the collective good. The group or collective level self concept then becomes the most salient of self concepts and individuals are motivated to act consistently with this self concept to enhance their self-esteem (Grojean *et al* 2004).

Bass and Avolio (1993 p. 116) contend “*a transformational culture like leadership can build on or augment the transactional culture of the organization. The inclusion of assumptions, norms, and values, which are transformationally based, does not preclude individuals pursuing their own goals and rewards. This can occur at the same time where there is alignment with a central purpose and the coordination required to achieve it. Leaders and followers go beyond their self-interest or expected rewards for the good of the team and the good of the organization.*”

Mechanisms for Embedding and Reinforcing Supply Chain Oriented Culture

Culture is the deeply rooted set of values and beliefs that provide norms for behaviour in the organization (Deshpande and Webster 1989; Schein 1984). Climate describes how the organization operationalizes its culture, the structures and process that facilitate achievement of the desired behaviors (Deshpande and Webster 1989). It is important for the organization's culture and climate to be complementary, because it is difficult to develop and sustain appropriate behaviours if the corresponding organization values are not in place and, conversely, values are difficult to sustain if the appropriate incentives and examples do not exist (Deshpande and Webster 1989; Schein 1984). Value components previously identified as critical to supply chain oriented culture such as trust (credibility and benevolence), commitment, organizational compatibility, cooperative norms and top management support (Mentzer *et al* 2001; Min and Mentzer 2004) need to be transmitted throughout the organization since the supply chain oriented culture that is not demonstrated in a consistent manner across all functional and hierarchical division within the firm may be ineffective in bringing about SCM (Mello and Stank 2005). The supply chain oriented culture sets the tone for decision making at all levels. Unclear cultures will result in value dilemmas.

In recent literature, different authors have suggested different strategies for promoting culture in organizations. For example Kerr *et al* (1987) state that much of the substance of culture is concerned with controlling the behaviour and attitudes of organization members, and the reward system is a primary method of achieving control. Thus, the reward system is a powerful mechanism for influencing an organizational culture. Furthermore, they suggest that lengthy and thorough socialization process, and use of older members of the organization as mentors, role models and agents of socialization can be adopted for acculturation. Schein (1990) highlights five primary mechanisms available to leaders for embedding and reinforcing aspects of an organization culture. The five primary mechanisms, which include *attention, reaction to crises, role modeling,*

allocation of rewards, and *criteria for selection and dismissal*, emphasizes the institutional as well as individual processes. Schein (1990) describes *attention* as what the leader focuses his employees to concentrate on (what is criticized, praised or asked about), which communicates his and the organization's value about them; *reaction to crises* as how the leader's reaction to the crisis situation signals his or her values to all of the organization employees; *role modeling* as the leader's actions that communicates strong messages to his or her employees about his values; *allocation of rewards* as how the behaviours that are rewarded by leaders with pay increase or promotion signal to others what is necessary to succeed in an organization; and *criteria for selection and dismissal* as how a leader's decisions about whom to recruit or dismiss signal his or her values to all of the organization's employees. Sinclair (1993) suggests two approaches - creating a unitary corporate culture and fostering subcultures within the organization - to managing cultures. The unitary approach is characterized by the creation of a cohesive culture in which values and norms are shared by all employees. This approach needs system of rewards, selection, appraisal, structures, physical spaces, rituals and ceremonies to be designed to reinforce organizational values and norms. Furthermore, information systems and corporate planning processes should also guide and reflect progress in institutionalizing values. The importance of the support and leadership of top management in creating a strong culture has been emphasized by this approach. The subculture approach views that common values and norms affecting the ethical behaviour are more likely to be found in groups within an organization than in the organization as a whole. This approach fosters the coexisting and diversity within the organization of underline national and racial cultures as well as professional and occupational subcultures. Individuals are encouraged to develop their own ethical values consistent with those of organization by this approach. Sinclair (1993) describes that strong cultures tend to maintain status quo, give individuals employees limited power, and inhibit the organization's capacity to react and respond to the changing needs of it stakeholders. In the subculture approach, values of a particular group may never be accepted by other groups resulting in a conflict of beliefs that leaves top management unable to find a common basis on which a value system can be built. Chen et al (1997) recommend the use of total quality techniques such as 'customer focus', 'top down support', 'participation and communication through teamwork', 'employee empowerment', and 'balanced incentive programmes' to facilitate the development of a cooperative corporate culture that promotes and encourages consistent behaviour throughout the organization. Young (2000) offers six organizational levers senior managers can employ to either maintain or modify an existing culture and stresses that all six must be used consistently to mutually reinforce each other. The six

organizational processes are: **strategy formulation process authority and influence, conflict management, management control, and customer/client management.** A study done by Grojean *et al* (2004) posits that leaders impact the climate of their organization through seven mechanisms which involve: using value based leadership; setting the example; establishing clear expectations of ethical conduct; providing feedback, coaching, and supporting organizational values; recognize and reward behaviours that support organizational values; being aware of individual differences among subordinates, and establishing leader training and mentoring. The study further stresses that leaders existing at different hierarchical levels in organizations play different role that may either contribute or detract from the consistency of the culture and that they adopt different transmitting mechanisms to implant ethical values and expectations into the organization. Based on the existing literature, McAleese and Hargle (2004) present five general guidelines - formulating an overall culture strategy, developing cultural leaders, sharing the culture by communicating effectively with staff, measuring the cultural performance, and communicating the culture - for building, maintaining, and modifying organization culture.

Most of the above studies have emphasized that leader plays a major role in establishing and maintaining culture. Specially, the studies emphasize the behaviour of leaders in all levels as a powerful communication mechanism that conveys the values and assumptions of the culture to the rest of the organization (e.g. Grojean *et al* 2004; McAleese and Hargle 2004; Schein 1990; Sinclair 1993). Thus, a primary factor in creating a supply chain oriented culture is ensuring that leaders in multiple functions and levels of the organization hierarchy communicate and apply a consistent and unified set of value components critical to supply chain oriented culture. Leaders across different functions and across different levels of organization should act as a team in cultivating supply chain oriented culture in the organization.

The literature also discloses that most of the principle mechanisms available to leaders for embedding and reinforcing aspects of an organization culture are related to the Human Resource Management (HRM) policies such as recruiting, socialization, training, compensation and evaluation of employees. Strategic leaders should foster a strategic fit between the HRM policies and supply chain oriented culture. McAfee *et al* (2002) affirm that a firm's culture and HRM policies affect one another and that internal consistency between organizational culture and human resource policies is a prerequisite for the conscious development of a successful supply chain strategy. That is, HRM policies of the firm should develop values and norms that fit with the supply chain orientation and the key SC practices such as information sharing, shared risk and reward,

cooperation, integration of key processes and long term relationships. The failure to adequately address this strategic fit can lead to reduced optimization in the effective functioning of the supply chain. Deadrick et al (1997) describe the HRM policies in terms of a transaction -relationship continuum. A relationship based HRM strategy emphasizes employee loyalty to the firm, leading to a long term relationship between the firm and its employees. A transaction based strategy views employees as being interchangeable and expendable, and places a less effort in fostering loyalty. It has been stated somewhere in this paper that SCM needs to establish a long-term relationship with the majority of its supply chain partners and integration among its functional units. Relationship based culture is characterized by mutual trust and interdependence on the part of both employees and supply chain members (Mentzer *et al* 2001). In order to support a relationship strategy with supply chain members, strategic leaders should pursue a relationship based HRM policies that involves specific human resource method for recruiting, training, rewarding, and appraising employees (McAfee *et al* 2002). Interdependence of human resource and other organizational functions should be taken into account so as to avoid the inconsistencies that can occur across functional areas in implementing the firm's stated HRM policies.

In addition, perceived trust in a leader is likely an especially important factor in the development of supply chain oriented culture. Dirks and Ferrin (2002) suggest that trust in leaders is important for building relationship between leaders and subordinates and creating confidence in the leader's character. Trust in leadership is a meaningful concept in organizations since the leader typically has the formal power on it (Bass, 1990 is attributed by Dirks, 2000). Trust is a core basis of effective leadership. When followers have trust in leadership, and perceive that the leader's focus is on the collective interest of the group, they are more likely to work toward collective objectives (Dirks, 2000). Trust is important if followers are to accept the goals, beliefs, or vision of the leader (Bennis and Nanus 1985). The trust in leadership is necessary for maintaining social exchange the relationship that entails unspecified future obligation- which accounts for organizational citizenship behaviour, the employee behaviour that is above and beyond the call of duty and is therefore discretionary and not rewarded in the context of an organization's formal reward structure (Konovsky and Pugh 1994).

Leadership Role in Supply Chain Network Structure

Supply chain network structure refers to the network of members and the links between members of the supply chain (Lambert and Cooper, 2000). The primary aspects of a company's network structures are (a) the members of the supply chain, and (b) the structural dimensions of the network.

Members of Supply Chain,

The members of a supply chain include all **primary and supporting** members with whom the focal company interacts through its suppliers or customers, from point of origin to point of consumption (Lambert and Cooper, 2000). The primary members are all those autonomous companies or strategic business units who actually perform operational and/ or managerial activities in the business processes designed to produce a specific output for a particular customer or markets. Companies that simply provide resources, knowledge, utilities or assets for the primary member of the supply chain are supporting members. The point of origin of the supply chain occurs where no previous primary supplier exist. The point of consumption is where no further value is added, and the product is consumed. Managers should distinguish their primary members from supporting members as a basis for determining which members are critical to the success of the company and the supply chain since integrating and managing all process links with all members across the supply chain would, in most cases, be counter- productive. However, the distinction between primary and supporting supply chain members is not obvious in all cases (Lambert and Cooper, 2000).

Structural Dimensions of the Network

The structural dimensions of the network refer to the length and depth of the supply chain. Lambert, Cooper, and Pagh (1998) propose three structural dimensions: **Horizontal structure** - the number of tiers across the supply chain; **vertical structure** -the number of suppliers/ customers represented within each tier; and the **horizontal position** within the supply chain -a company can be positioned at or near the initial source of supply, be at or near to the ultimate customer, or somewhere between these end points of the supply chain-. The horizontal position of the company within the supply chain is very important since whoever has the relationship with the end customer has the power in the supply chain (Lambert and Cooper, 2000). Different combinations of these structural variables are possible. Changes in the number of suppliers and/ or customers will affect the structure of the supply chain.

A myriad of potential relationship combinations exists among supply chain members that can be analyzed in term of how they partner or develop collaborative linkages with one another (Akacum and Dale 1995). Strategic leadership should realize and identify these aspects of a company's network structures. It is important to distinguish between primary and supporting supply chain members, and to comprehend the horizontal structure, vertical structure, and horizontal position of the focal company in the supply chain network (Lambert and Cooper 2000).

Including all types of members may cause the total network to become highly complex, since it may explode in the number of members added from tier level to tier level (Cooper *et al* 1997). Coordination, supervision and allocation of managerial attention and resources will be difficult if the total network become highly complex. Furthermore, the integration and management of key supply chain business process will also be counter productive, if not impossible, if the total network become highly complex. Thus, leaders should be proactive to identify those supply chain members that will enhance the ability of the firm to increase value and reduce costs associated with value delivery process. Decision on the selection of supply chain members with whom the firm links key process should be weighed against firm capabilities and the importance to firm.

Leadership Role in Integration of Business Processes

A business process is a structured set of activities with specified business outcomes for customers (Davenport and Beers 1995). The structure of activities within and between companies is a critical cornerstone of creating unique and superior supply chain performance (Hakansson and Snehota 1995; cited in Lambert and Cooper 2000). Traditionally, both upstream and downstream value chains of the supply chain have interacted as disconnected entities receiving sporadic flows of information over time. Initially, business processes were viewed as a means to integrate corporate functions within the firm. Now, business processes are used to structure the activities between members of a supply chain since successful SCM requires a change from managing individual functions to integrating activities into key supply chain business processes (Lambert 2004). The integration of cross- functional business processes across firms in the supply chain is a capability of a firm. Firms that seek to be market driven need to implement cross-functional business processes (Day 1994). Competitiveness and profitability could increase if internal key activities and business processes are linked (Lambert *et al* 1998). There is an economic rationale related to the integration of process; that is, economies can be accrued by adopting and coordinating the activities carried out in sequence (Hakansson and Persson 2004). However, the way in which these processes are structured and managed can make the difference between profit and loss.

Literature describes supply chain business processes in different ways. For example, Melnyk *et al* (2000) identify eight business processes: *plan-deliver product design/redesign capacity management ,process design/redesign*, and *measurement* .The Supply Chain 2000 framework developed by Bowersox *et al* (2000) identifies following three contexts, or components, each of which includes business processes that serve to integrate organizational structures and functional activities. (1) The

operational context that integrates internal order-fulfilment and replenishment process with work performed by material and service providers and by distribution networks responsible for delivering products to customers. (2) The planning and control context that integrates information technology and planning system as well as measurement competency. (3) The behavioural context that focuses on integrating relationship among supply chain entities. Bowersox *et al* (2000) suggest six critical areas of competence that strategic leaders may deploy to achieve successful business process integration. The six competency area include: customer integration which builds lasting distinctiveness with customer choice; internal integration which links internally performed work into a seamless process to support customer requirements; material/service supplier integration which links externally performed work into a seamless congruency with internal work processes; technology and planning integration which maintains information system capable of supporting the wide variety of operational configurations needed to serve divers market segments; measurement integration which develops and maintains measurement systems that facilitate segmental strategies and processes; and relationship integration which develop and maintain a shared mental framework with customers and suppliers regarding inter-enterprise dependency and principles of collaboration.

The Supply Chain Council develops Supply Chain Operations References (SCOR) framework. The SCOR includes *plan*, *source*, *make*, *deliver* and *return*, as the business process which are to be implemented within the firm and eventually connected across firms in the supply chain (Supply Chain Council 2003, p. 7, ; quoted by Lambert *et al* 2005, p. 29). Each process is analyzed and implemented around following components: business process reengineering, capturing the current state of a process and then determine the “to be” state based on the business process templates for plan, source, make, deliver, and return; benchmarking, determining target values for operational performance metrics for the “to be” state of the process, and best practice analysis, identifying management practices and software solutions used successfully by similar companies that are considered top performers (Supply Chain Council 2003, p.7, quoted by Lambert *et al* 2005, p. 29).

Lambert (2004), drawing from work done by the Global Supply Chain Forum, presents the eight processes that need to be managed and integrated for successful supply chain management. The eight key processes are: *customer relationship management*, *customer service management*, *demand management*, *order fulfillment*, *manufacturing flow management*- includes all the activities necessary to obtain, implement and manage manufacturing flexibility and move product through the plants in the supply chain; *supplier relationship management*- provides the

structure for how relationship with suppliers are developed and maintained; *product development and commercialization* and *returns management*. Customer relationship management and supplier relationship management, both of which have seven sub processes, provide the linkages required to facilitate integration among the supply chain members to coordinate the other six processes (Lambert 2004). Each of the eight processes is cross functional and cross firm. Each is broken down into strategic and operational elements. The strategic sub process defines the blueprint for strategically managing the processes while the operational elements execute the processes (Lambert *et al* 2005).

Literature clearly indicates that the business processes have been described in multiple ways. However, industry standards on what these processes would be are still to be established. The value of having standard business processes in place is that managers from firms in the supply chain can use a common language and can linkup their firms' processes with other members of the supply chain, as appropriate (Lambert 2004).

The number of business processes that is critical and or beneficial to integrate and manage between companies will likely vary (Lambert and Cooper 2000). The major role of a strategic leader is to thoroughly analyze and discuss which key business processes to integrate and manage to meet the needs of his/her firm. Literature suggests four criteria that can be employed to evaluate the key business processes (Lambert *et al* 2005).

Scope

The scope of business process refers to the extent to which it supports the achievement of the corporate strategy (Lambert *et al* 2005). Synchronizing and integrating business processes across diverse supply chain entities require organizational resources and competencies. It is important that the firm's resources and competencies are aligned to achieve the strategic objectives to improve the corporate performance.

Intra- Company Connectedness

Intra- company connectedness means “the degree of formal and informal direct contact among employees across departments,” (Jaworsky and Kohli 1993, p.56). Though the inter-functional interaction is driven by common objectives, it is also a source of conflict due to differences in individual goals (Ruekert *and* Walker 1987). The goals of different functional areas and their personnel are rarely consonant (Anderson 1982). The effort such as sharing information, having mutual understanding, working informally together, ascribing to the same vision, and sharing ideas/ resources should be facilitated to ensure intra- company

connectedness (Kahn and Mentzer 1998).

The business processes should not disturb intra- company connectedness. Business processes do not replace business functional area (Lambert *et al* 2005). Intra- company connectedness is a key component for marketing and overall company success (Webster 1988).

Inter- Company Connectedness

Business process must ensure both a long-term relationship and a transactional efficiency. Strategic leaders need to be selective when deciding which relationships should be developed into long-term relationship and which should be considered transactional- based relationships since both approaches are having trade offs.

Drivers of Value Generations

Business processes that are integrated and managed must help generate value. The value can be generated by increasing revenue, reducing operating cost, reducing working capital, and increasing assets efficiency.

Coordinating, Supervising, and Implementing SCM Practices

The management practices of SCM are the managerial variables by which the business processes are integrated and managed across the supply chain (Lambert *et al.* 1998). Organization undertakes SCM practices to promote effective management of its supply chain (Li *et al* 2005). The literature portrays SCM practices from a variety of different perspective with a common goal of improving organizational performance. For examples, Cooper *et al.*, (1997) categorize management components into two groups- physical and technical, and managerial and behavioural-. The physical and technical components are planning and control methods, work flow/activity structure, organization structure, and product flow structure. The managerial and behavioural components are management method, power and leadership, and culture/attitudes. These components define the organizational behaviour and influence how the physical and technical management components can be implemented. If these components are not aligned to drive and reinforce an organizational behaviour supportive to the supply chain objectives and operations, the supply chain will likely be less competitive and profitable (Lambert *et al* 1998). Tan (2001) contends that a well integrated supply chain involves coordinating the flow of materials and information among suppliers, manufacturers, and customers, and implementing product postponement and mass customization. Mentzer *et al* (2001) and Min and Mentzer (2004) include information sharing, shared risk and reward, cooperation, integration of

key processes, long term relationships, agreed supply chain leadership and inter-functional coordination in their list of SCM practices. Chen and Paulraj (2004) include supplier base reduction, long-term relationship, communication, cross functional teams and supplier involvement as SCM practices in their study.

From an examination of above literature, the most commonly cited SCM practices can be fused to identify the role of firm's level strategic leaders in integrating the business processes across the firms in the supply chain. Though they are discussed separately, in practice these roles may be interactive and closely related.

Coordination

Coordination refers to the combination of parts to achieve most effective or harmonious results (Van De Ven et al 1976). Coordination within a supply chain is very important in responding to the problems that arise from the structural characteristics of the supply chain network.

A key role of strategic leadership is coordination of key business process of the firm with other firms within a supply chain to achieve simultaneous integration of critical supply chain flows to create value for end users by reducing cost associated with redundancy and duplication. The critical supply chain flows are: production/ service flow, market accommodation flow, information flow, and cash flow (Bowersox *et al* 2000). These flows occur in all supply chains. If not coordinated and integrated among the chain members, they can be characterized by delay, redundancy, and inefficiency (Bowersox *et al* 2000).

Key prerequisite for achieving effective supply chain coordination are (a) selection of coordination mechanism and (b) effective integration of key functional areas within the firm.

Coordination Mechanism

The coordination occurs through a mechanism of coordination. A mechanism of coordination is a variety of strategies adopted and implemented through managerial actions for achieving integration among different firms (Martinez and Jarillo 1989) within a supply chain.

Organization theory scholars suggest a large array of coordination mechanisms (e.g. Galbraith and Kazanjian 1986; Kotter 1982; Ouchi and Maguire 1975; Simon 1976). Coordination strategies vary along three dimensions: formality, cooperative, and localization (McCann and Galbraith 1981; cited by Victor 1990). Informal, decentralized, and

cooperative strategies can be characterized as organic strategies, while formal, centralized, and controlling strategies are mechanistic strategies (Burns and Stalker 196; cited by Victor 1990). Martinez and Jarillo (1989) divide mechanisms of coordination into two groups: structural and formal mechanisms, and other mechanisms, less formal and more subtle. The formal structural mechanisms are centralization or decentralization, formalization and standardization, and output and behavioural control. The other mechanisms are lateral relations, and informal communication. Selecting suitable coordination strategies is not an easy task when the firm has to coordinate different organizations within the supply chain.

Given the advantages to be gained through supply chain coordination, the challenge to a strategic leader is how to select the appropriate coordination mechanism to integrate business process and flows across the supply chain. Selecting coordinating strategies is a critical managerial problem since it affects organizational performance (Victor 1990). Selected Strategies should fit with the problem of coordination. The effects of major structural characteristics such as degree of task uncertainty (Van De Ven et al 1976), degree of differentiation (Walker and Lorsch 1968), degree of goal or interest conflict, and inter-organizational dependencies between the units (Victor 1990) should be considered in selecting the strategies to coordinate the relations between units. Task uncertainty refers to difficulty and variability of the work (Van De Ven et al 1976) undertaken by supply chain partners. Differentiation refers to differences between the cognitive and emotional orientations of managers (Lawrence and Lorsch 1967; cited by Victor 1990) in the firms within the supply chain. As a result of differentiation, when it becomes necessary to make joint decision-making, managers from different units will approach the problem from different frame of reference and may have difficulty collaborating effectively (Lawrence and Lorsch 1967; cited by Victor 1990). Interest conflict refers to the conflict between the goals and interest (Victor 1990) of supply chain partners. Inter-dependence is the extent to which supply chain members are dependent on one another (Van De Ven *et al*, 1976) to perform supply chain activities. The interdependency involves different bases of interconnectedness between unit personnel: task (the flow of work between actors), role (the position of actors engaged in concerted action), social (mutual needs or goals of actors), and knowledge (the differentiated expertise of actors) (Pennings 1974; cited by Van De Ven et al 1976). Minzberg (1979) identifies four main types of interdependencies: *work flow*, the interdependency connected to the presence of a sequence of complementary production activities; *Process*, interdependencies connected to the single steps and operations of the work flow; *scale*, the need of joining units in order to reach efficient dimension; and *social relationship*, the social rapport which surrounds the production activities. Each structural criterion affects the type of coordination strategy selected

by strategic leader. To overcome these centrifugal forces the strategic leaders of the firm must maintain a mechanism of coordination that minimizes overlap and conflict among its varied partners allowing them the necessary flexibility to adapt to their particular environment.

Functional Integration

Inter-functional coordination refers to the application of resources of the company as a team to create a superior value for target customers.

Inter-functional coordination is important because discrete activities often affect the other. Competitive advantage comes from the way firm's activities integrate and reinforce one another (Porter and Millar, 1985). One activity's value to customers can be enhanced by a company's other activities. Integration locks out imitators since it is a capability. The capabilities are hard for competitors to discern since they are complex set of skills and collective knowledge exercise through organizational processes that ensure superior coordination of functional activities (Day, 1994). Coordination and information exchange across activities eliminate redundancy and minimize wasted effort. Literature supports a direct, positive relationship between integration and performance success or achievement of a competitive advantage (e.g. Kahn and Mentzer, 1998; Mollenkopf et al., 2000).

A firm that is well integrated will share relevant customer and market information across the functional areas and develop a coordinated response to that information (Mollenkopf et al., 2000). Similarly, the integrated business functions provide input to the eight supply chain management processes (Lambert, 2004).

Cooperation

Another key role of strategic leadership is to maintain cooperation with supply chain members. The cooperation is also a prerequisite for coordination (Smith et al 1995).

Supply chain members are to a greater or lesser degree interdependent with one another to integrate the effective flow and transformation of goods, services, related information, and funds from point of origin to the end consumers (Lambert *et al* 1988). Each member in the supply chain should extend its cooperation to integrate planning, implementing, and controlling the effective flow of goods and services, related information, and associated funds for the purpose of conforming to customer requirements. However, they may often confront with decisions that involve a conflict between one's own firm interest and the interest of the

supply chain as a whole. The ultimate value of high quality decisions depends to a great extent upon the willingness of members to cooperate in implementing those decisions (Woolridge and Floyd 1990). It is often crucial that members devote extra time, energy, and effort to interdependent task and actions that benefit the entire chain rather than to one's own firm interest. This contribution of individual effort, time, and resources to collective effort is referred to as cooperation (Smith *et al* 1995). Similarly, Ring and Van de Ven (1994, p.96) define cooperative relationship as “socially contrived mechanisms for collective action, which are continually shaped and restructured by actions and symbolic interpretations of the parties involved.” Smith *et al* (1995) note two types of cooperative relationships: the formal (characterized by contractual obligations and formal structures such as formal hierarchy, rule and regulations), and the informal (adaptable arrangements in which behavioural norms determine the contribution of the parties). Axelrod (1984) (cited in Smith *et al*, 1995) contends that the following conditions inspire the spontaneous emerging of such cooperation: (a) parties' perceiving they will be in contact with each other for a long time; (b) their believing it is to their advantage to cooperate; and (c) their recognizing they must reciprocate for any benefits received, employing a tit for tat strategy.

However, many situations have mixed motive character where some members may not invest enough energy and time in team operation because once the goals of the team are achieved many can enjoy their benefits, regardless of whether they contributed much or little (Cremer and Knippenberg 2002). If all members act in such a self-interested manner, supply chain integration may fail and the interest of the individual firm and other firms in the supply chain will not be served. The mixed motive character leads to social dilemmas or organizational dilemmas (Cremer and Knippenberg 2002). A social dilemma which involves the conflict between individual interest and collective interests may be one of the key obstacles to establishing cooperation (Tenbrunsel and Messick, 1999).

The strategic leaders in each firm within supply chain must try to reduce free riding and promote cooperative behaviour. For this purpose, two types of cooperative behaviours stimulating desirable behaviour and lessening the occurrence of undesirable behaviour- (Tyler 2002) are potentially relevant for viability of supply chain.

Desirable Behaviour involves those activities that help the effective and efficient functioning of the supply chain. The most important desirable behaviour is that doing the job assigned to the firm with high sense of responsibility.

Giving constructive feedback is another desirable behaviour. Leaders may engender cooperation by monitoring supply chain member's behaviours, giving guidance and feedback about the members' behavior. And, similarly, they provide updated information to members to keep everyone informed and to prevent problem from escalating.

The antecedents of desirable behaviour are:

Trust

The strategic leader of the firm in a supply chain must foster mutual trust among the supply chain members. **Trust** is referred as an individual's confidence in the goodwill of the others in a given group and belief that the others will make efforts consistent with the group's goal (Ring and Van de Ven 1994). Interpersonal trust is a pervasive phenomenon in supply chain management. Trust enables people to take risk. Trust encompasses not only people's beliefs about others, but also their willingness to use that knowledge as the basis for action (McAllister 1995).

However, mutual distrust and relationship difficulties before and during cooperation will lead to a considerable antagonism among supply chain members. The manifestation of distrust and cooperative difficulties is often in the form of conflict that impede the efforts of members to improve the overall supply chain performance (Simatupang and Sridharan 2002).

Commitment

Commitment has been defined in multiple ways. From the single organization's perspective, commitment refers to the willingness of individuals to exert high level of effort on behalf of the organization, and a sense of identification with the organization's objectives, so that individual and organizational goals are closely aligned (Guth and Macmillan 1986; Cook and Wall 1980). Similarly, commitment has been defined, from the point of view of long term relationship, as an enduring desire to maintain a valued relationship (Moorman *et al* 1992). Korsgaard *et al* (1995) define commitment, in a context of formal structure, as the extent to which team members accept the course of action outlined and intend to cooperate in carrying it out. Although there are slight variations in these views, all emphasize the spontaneous support of the members for achieving organization's or team objective.

The strategic leader of a firm in a supply chain should have a commitment to carrying out the supply chain decision since the lack of commitment of the firm can delay or sabotage the implementation of initiatives of the supply chain. Even slight delays can be critical in highly competitive and

dynamic environment (Guth and MacMillan 1986). Firm's commitment to supply chain decisions ensures that the mutual and consonant choices necessary for cooperative effort will be made, where as lack of commitment places a major constraint on the range of options of the supply chain can consider. Since supply chain decision are often interwoven and integrated with one another, lack of commitment to a decision generally has repercussions far beyond its impact on the success of that decision alone.

Procedural Fairness (justice)

The strategic leader must observe the procedural justice. **Procedural fairness** refers to the fair procedures enacted by the firm (Cremer and Knippenberg 2002). The basic premise of justice theories is that fair treatment is central to people and a major determinant of their reactions to decision. Procedural fairness communicates important relational information with respect to one's standing within the supply chain. Enactment of fair procedures expresses a positive social evaluation (respect, belongingness), whereas unfair procedures express disrespect and marginality within the supply chain. As a consequence, procedural fairness influences one's sense of self worth and belongingness to the supply chain. When procedures are perceived to be fair, members are more likely to engage in citizenship behavior, behaviour intended to provide help and assistant that is outside an individuals' work role, not directly rewarded, and conducive to effective organizational functioning (Organ and Konovsky 1989), to perform their job better (Cremer and Knippenberg 2002). The perceptions of procedural justice are negatively associated with group conflict (Alexander and Ruderman 1987; cited by Korsgaard et al 1995)

Group Attachment

Firms' attachment to one another is important to the implementation of supply chain decisions and to the continued functioning of a team. Group attachment refers to “the extent to which individuals feels themselves to be part of the team and look forward to working with other team members,” (Korsgaard *et al* 1995, p. 61). When firms feel a sense of attachment to their supply chain, they will work more cooperatively and more diligently to ensure that the supply chain goals are met. Conversely, acrimony among supply chain members limits consensus and acceptance of decision (Woolridge and Floyd 1990). Similarly, alienation from other supply chain members may impede a member's willingness to share information on future activities and thus disrupt cooperation and coordination among members. Furthermore, lack of attachment may exacerbate the tendency of members to pursue self-interest at the expense of reaching supply chain goals (Guth and MacMillan 1986).

Identify Trade partners' priorities

Strategic leader of the firm within the supply chain need to understand the desires of its direct customers better. The information on direct customers' needs and wants should be continuously collected and analyzed. And feedback on the firm's performance within the supply chain should be taken and if there is deficiency corrective measures should be taken.

Undesirable behavior involves activities that are detrimental to the effective progress of the supply chain. **Managerial inertia** of the supply chain members is one of the most harmful behaviours. The firms who are suffering from managerial inertia always seek only their own profit instead of the overall supply chain profit. They habitually work as an individual firm based on opportunistic behaviour. The basic reason for managerial inertia pertains to the obsolescence of existing procedures or the lack of updated procedures for a new level of corporation among multiple parties that requires for effective management of the supply chain (Simatupang and Sridharan 2002).

The sources of managerial inertia can be classified as: *inappropriate measures of performance*, using traditional measures of individual performance irrelevant to reflect the attainment of supply chain profit; *outdated policies*, employing decision guides, particularly rules and procedures, which are no longer valid to the new conditions of supply chain relationships; *asymmetric information*, having different states of private information about demand conditions, product, and the chain operation; and *incentive misalignment*, making decisions considering only individual firm's rewards and penalties, which typically often differ from maximizing the overall supply chain profitability and sometimes are at the expense of others (Simatupang and Sridharan 2002).

Long Term Inter-Organizational Relationship

Strategic leader must build and maintain a strong relationship with other supply chain partners in order to successfully implement SCM. Because SCM consists of integration of complex business processes that require firm to cooperate with one another to overcome the impediments and barriers to implementing SCM activities, it is critical that firms increase the strength of their relationships with other firms in the supply chain (Moberg et al 2004). Wisner (2003) found that a firm's relationship with customers and with suppliers both positively impacted the implementation of SCM strategies and firm performance. Building and maintaining long term relationships among the supply chain members create sustainable advantages precisely because they are so difficult to manage. Committed relationships are among the most durable of advantages because they are

hard for competitors to understand, to copy, or to displace (Day 2000).

However, it is important for strategic leaders to identify the right customers at whom the relationship-building efforts should be directed because relationships do not come free of cost and maintenance of the association requires resources. Day (2000, p.24) clearly indicates "...a strategy of investing in or building close relationships is neither appropriate nor necessary for every market, customer, or company..... because close relations are resource intensive, not every customer is worth the effort." Parties with highly divergent goals may not only spend considerable economic and psychic resources in conflict and haggling processes but also entail costly dissolutions. The opportunity costs of foregone relationships with alternative partners may be more important (Dwyer *et al.* 1987). Blind acceptance of relationship as a solution would be a mistake as serious as blind rejection of relationship as a useful tool (Gardner *et al.* 1994). Therefore, access to external firms' resources should be considered as a lengthy and costly investment process and the decisions thereof should be analyzed and weighed carefully.

Strategic leaders should know the range and type of relationship, as well as the reasons for the relationship formation in order to determine the best relationship to pursue with a particular member (Cooper and Gardner 1993). Knowing and understanding of different categories of relationship structures will help strategic leaders identify the right type of relationship the firm should build with the other partners in the supply chain. The relationship structure is the "manner in which the relationship is constructed" (Golicic and Mentzer 2005, p. 47). Relationship type is the "group or class of relationships that share common traits or characteristics" (Golicic *et al.* 2003, p. 59). However, the literature, in general, places the range of inter-organizational relationships between market governance (arm's length transactions) and hierarchical governance (vertical integration) (Ritter and Gemunden 2003; Golicic *et al.* 2003). The relationships in between these two extremes are called 'cooperative relationships' (or hybrid governance) (Contractor and Lorange 1988; Golicic *et al.* 2003; Webster 1992). Integration involves more than one firm and, therefore, a single firm itself alone cannot effectively accomplish the control and management of the whole channel. At the extreme of arm's length relationship, there are no partnership elements.

The nature of the type of relationship between a firm and its downstream and upstream value chains is dependent on number of variables such as volume of business, the extent to which products are specialized and require information and training for effective use, the degree to which services require a better understanding of the process in order to reduce the cost, whether previous suppliers met a firm's requirements (Akacum and

Dale 1995), the locus of decision making, the scope of supervision and control, commitment to the system, and the formality of roles and division of labour (Boyle *et al* 1992), management time constraints, management experience, market characteristics (Cooper *et al.* 1997), transaction cost drivers of specific assets, uncertainty and frequency, market and business share, geographical coverage, special skills required, customer history (Gardner *et al.* 1994) levels of trust among members, commitment, mutual dependence, organizational compatibility, vision, leadership, and top management support (Mentzer *et al.* 2001),

Qualities of Successful Relationship Building

Firm within a supply chain may have a portfolio of different relationship structures. Strategic leaders should understand this portfolio and the magnitude of the relationship the firm maintains with each type of relationship structure. Golicic *et al* (2003, p. 61) define relationship magnitude as “the extent or degree of closeness or strength of the relationship between or among organizations.” The magnitude of a relationship provides a measure of the stability of the relationship and is used as an indicator of the health and future well being of long-term relationships. The magnitude of a relationship varies with the type of relationship (Bove and Johnson 2001). It is important for strategic leaders to understand the ingredients that determine the strength of relationship in order to have a desirable close relationship with supply chain partners.

From an examination of literature, the most commonly cited dimensions are extracted and synthesized as follows to develop some comprehension about the ingredients that determine the strength of relationship.

Trust

'Trust' is widely cited in the literature as essential ingredients for successful long term relationship (e.g. Dwyer *et al* 1987; Moorman *et al.* 1993; Morgan and Hunt 1994). Min and Mentzer (2004) propose trust as one of the cultural elements of relations that firm should build and maintain with its supply chain partners.

Trust is viewed in literature in multiple ways with slight variations. Some studies view trust as a belief, confidence, or expectations about an exchange partner's trustworthiness that result from the partner's expertise, reliability, or intentionality (Andeson and Weitz 1989, Morgan and Hunt 1994). Moorman *et al.* (1993, p. 82) define trust as “a willingness to rely on an exchange partner in whom one has confidence.” Both of these definitions highlight the importance of confidence and reliability in the conception of trust. Min and Mentzer (2004), in their operationalization of

the concept 'trust', identified two dimensions of it: credibility, a firm's belief that its partner stands by its words, fulfill promised role obligations, and is sincere; and benevolence, a firm's belief that its partner is interested in the firm's welfare, is willing to accept short term dislocations, and will not take unexpected actions that would have a negative impact on the firm. Trust is very important when firms exchange in situations where perceived outcome of trust is uncertain and vulnerable. The perceived outcome of trust is focused by Anderson and Narus (1990 p. 45) when they define 'trust' as "the firm's belief that another company will perform actions that will result in positive outcomes for the firm as well as not take unexpected actions that result in negative outcomes." Trust is a determinant of cooperation, relationship commitment (Morgan and Hunt 1994), the functionality of conflict between parties (Anderson and Narus 1990), and communications between parties (Anderson and Weitz 1989)

Commitment

Another dimension that is widely recognized in the literature as an essential drive for successful long-term relationship is commitment (e.g. (e.g. Dwyer et al 1987; Moorman et al. 1993; Morgan and Hunt 1994). Commitment is also one of the cultural elements of relations that firm should build and maintain with its supply chain partners (Min and Mentzer 2004).

Commitment refers to an implicit or explicit pledge of relational continuity between exchange partners (Dwyer et al 1987). Commitment implies a willingness to make short term sacrifices to realize longer term benefits. Commitment generally does not change often (Moorman *et al* 1992). Commitment is believed to be associated with motivation and involvement, positive effect, loyalty, and obedience to organizational policies (Gundlach *et al* 1995). Dwyer et al (1987) suggest three measurable criteria of commitment: *inputs*, providing relatively high level of inputs to the association; *durability*, continuity of the association over time; and *consistency*, avoiding input level fluctuations. Gundlach *et al* (1995) claim that commitment has three components: an instrumental component of some form of investment; an attitudinal component that may be described as affective commitment; and a temporal dimension which indicates that the relationship exists over time. However, a key distinct characteristic of commitment is that parties spontaneously and purposefully engage resources to maintain the relationship.

Commitment provides a foundation for the development of social norms of governance, which are considered important mechanisms for regulating long term relational exchanges and reducing opportunism. And, committed partners are willing to invest in valuable assets specific to an

exchange, demonstrating that they can be relied upon to perform essential functions in the future. These self - interest stakes help stabilize associations, alleviating the uncertainty and cost of continually seeking new exchange (Gundlach *et al* 1995). Reciprocal or joint commitment input can lead to stable long-term relationships through aligning participants' incentives structures and enhancing their confidence in each other (Williamson 1985 cited in Gundlach *et al* 1995).

Disproportionate commitments can results in conflicts, dissatisfaction, and opportunistic tendencies, and erode the governing properties of relational norms leading to the eventual decline of an exchange relationship. Some other forces that can disturb the relationship include increased cost of transaction, decreased obstacles associated with interacting with an alternative exchange partner, and changing personal and organizational needs resulting in diminished valuation of rewards (Dwyer *et al* 1987).

Cultural Similarity

Both internal corporate culture and external supply chain culture need to be consistent in order for the supply chain to be most effective (Mello and Stank 2005) Cultural consistency is characterized by met expectations. Firm and supply chain partners should know each other's expectations, agree about how these expectations are to be met, and perform accordingly (McAfee *et al* 2002).

Cultural barriers create divergent values, which make it difficult to come to trust the other party. In particular, problems arise in the common situation whereby supply chain members are from different countries/geographical areas. These problems are particularly acute when each country is far apart culturally. The essence of the problem is lack of cultural consistency (Anderson and Weitz 1989).

Leading across cultural differences, whether international or organizational, requires specific interpersonal attitudes and skills, as well as technical and organizational knowledge. 'Relationship competence' and 'open mindedness' are most critical qualities that strategic leaders should posses to work with divers cultures (Manning 2003).

Relationship competence is the ability to establish an emotional identification with followers from a variety of cultures (Manning 2003). Leaders with relationship competence bring out the best in people, building trust through emotionally connecting with people from different background and create mutually enhancing relationships (Gregersen *et al.* 1998).

Open mindedness is described as a desire to see and experience new things (Gregersen *et al.* 1998). Openness consists of two factors: cosmopolitan orientation, an attitude of openness to others' values and practices; and cultural flexibility, the willingness to experiment with different customers (Manning 2003).

Resource Dependency and Switching Cost

As most firms cannot develop all capabilities needed internally, they may collaborate with other organizations to gain access to key competencies or resources (Nassimbeni 1998). When two firms find a match between their needs and the capabilities of the other firm, and realize that potential gains from acting cooperatively will exceed the gains from acting opportunistically, they strive to obtain synergies from the shared capabilities (Golicic *et al.* 2005). When the relative dependence is symmetric (partners are equally dependent on each other), the motivation to form a long term relationship is very high (Mentzer *et al.* 2000). In contrast, asymmetric relative dependence creates greater conflict, lower stability, lower trust, and lower commitment than symmetric relationships (Anderson and Weitz 1989). When a relationship is unimportant to the parties involved, neither party will be willing to continue relationship (Dwyer *et al.* 1987). However, if at least one party has significant stake in the dyad, she/he will be motivated to continue the relationship (Anderson and Weitz 1989). Specially, the firm's anticipation of high switching cost gives rise to the firm's interest in maintaining a quality relationship (Dwyer *et al.* 1987). This is especially factual when the bargaining power of suppliers/ buyers is high.

Implications for Managers in Sri Lankan Context

SCM is an important success factor for the Sri Lankan companies which are challenged by the proliferation of globally sourced products, and rapid technological changes. Sri Lanka, a developing country in South Asian region, has been operating a market economy since 1977. Though the market power in Sri Lanka is growing, the market infrastructure has not yet been well developed. However, strategic leaders in Sri Lankan firms should understand that SCM concepts can be applied successfully to some industries in Sri Lanka. The garment industry, for example, which contributes to a high percentage of GDP (Gross Domestic Product) and earns a relatively higher proportion of foreign exchange than the other industries involved in export marketing in Sri Lanka, is one of the industries which can build up sustainable competitive advantage and accordingly superior firm performance through gaining deep understanding and proper application of SCM concepts to face the competitive force emerging from the global markets.

Since supply chains are often complex systems of interdependent activities and processes associated with flow of products, services, funds, and information from the original supplier of raw materials through to the final consumer, managing them is not an easy task for a firm in a developing country like Sri Lanka. Strategic leaderships in Sri Lankan firms should play a vital role in encouraging firms to apply SCM concepts though these concepts are principally developed and applied in highly developed countries. Strategic leader's vision plays a critical role in shaping a firm's values and orientation. He/she must understand and embrace the significant operational and market impact of applying SCM concepts.

In applying these concepts in Sri Lankan industries, strategic leaders in the firms must realize the characteristics of national cultures since individuals' expectations and behaviours are reflected by national cultures. National culture can influence the firm's organizational culture, leadership style, and organizational structure. Individuals bring their personal values, attitudes, and beliefs, which were nurtured by the national culture to the working environment. Many of these personal values, attitudes, and beliefs may be independent of (or even conflict with) the culture of the organization. Clear understanding of how personal values, attitudes and mindset (filters through which people view the world, self, and others) fit in with the existing organizational culture, the influence of national culture on the individual values, and the consistency between the organizational culture and supply chain oriented culture is very important for strategic leaders as a first step in implementing a successful SCM. If any inconsistency between the organizational culture and the supply chain oriented culture exists, strategic leader should take necessary steps to develop behavioural guidelines that are congruence with supply chain oriented culture within the boundaries of the firm. However, cultural changes cannot be done quickly. Shared values, attitudes, beliefs and mindsets, which an individual develops over a long period of time, cannot be changed instantly. Resistance to change is inevitable in the transformation process.

Managing this resistance, especially, selection of a leadership style that suits the specific context and an appropriate mechanism for embedding and reinforcing supply chain oriented culture will be a formidable challenge for strategic leaders. However all steps should be prefaced by strong leadership creating the pressure for change coupled with new top management behaviour that set the example. It is also necessary to have a team effort and commitment at the top for initiating, embedding and reinforcing supply chain oriented culture.

Furthermore, strategic leaders should take action to ensure that leaders at both multiple functions and levels of the organization hierarchy

communicate and apply a consistent and unified set of value components critical to supply chain oriented culture. Leaders cannot be expected change the manner in which they approach their tasks and relationships unless they are fully aware of the behaviour required to get things done in the new culture. Leaders at both vertical and horizontal levels of the organization should act as a team in cultivating supply chain oriented culture throughout the organization. The cultural change should be coordinated with other planned internal changes in management systems and organizational structure.

Strategic Leader who involves in fostering supply chain oriented culture within his/her firm should ensure the strategic consistency between the HRM policies and supply chain oriented culture. A firm's culture and HRM policies affect one another and internal consistency between organizational culture and human resource policies is a prerequisite for the conscious development of a successful supply chain strategy. HRM policies (recruiting, socialization, training, compensation and evaluation of employees) of the firm should develop values and norms that consistent both with the supply chain orientation. Sufficient funds for implementing HRM polices, specially, hiring the right people, providing extensive and ongoing training, giving regular and through feed back, and compensating should be allocated. The behavioral guidelines so developed should be instrumental to implement the key supply chain practices such as information sharing, shared risk and reward, cooperation, integration of key processes and long term relationships building.

The behavioural guidelines of internal firm SCO should be extended externally to key firms in the supply chain to improve the competitiveness of each firm and the supply chain as a whole. Relationships among the firm are mainly maintained for an economic purpose. It is important for strategic leaders to identify the right partners with whom relationship should be built because relationships do not come free of cost and maintenance of the association requires resources. It is desirable for a firm to maintain a long term relationship, especially where the benefits of the members and the supply chain as a whole exceed the cost and risk. However, this total cost, risk and benefit should be viewed from both the customer's and organization's point of view. Once the relationship is built, strategic leaders should devote proportionate human and physical resources to maintain healthy relationship. Cooperation of the strategic leader should be extended to maintain the relationship smoothly.

Maintaining the firm's culture consistent with those of other member firms is very important in order for the supply chain to be most effective. For this purpose, strategic leader must realize the differences among national cultures since individuals' expectations and behaviours are different with

various national cultures. For example, most of the private sector firms in Sri Lanka are owned by founders and families. They tend to be paternalistic, promote values of high power distance, and have bureaucratic control and centralized decision making with little worker empowerment. Recruitment and promotion are often based on nepotism and family ties. In contrast, Western firms tend to be owned by public shareholder and run by professional managers. They are flatter in structure, less bureaucratic, promote individualism, decentralized decision making and more empowering to their workers (Lok and Crawford 2004). In practice, achieving a consistency among cultures in all the firms in supply chain may be very cumbersome. But, developing good understanding of the firm's potential partners and their top management should be achieved for an effective relationship. Therefore, when working with other members in the supply chain, strategic leader should gain a thorough understanding about each partner's national and organizational culture since this knowledge is very important for maintaining the firm's culture consistent with those of other member firms in different context. The strategic leader should determine the degree to which his/her firm can develop a common culture among his/her organization and each supply chain member, rather than trying to apply a common culture for all. Strategic leaders should possess characteristics and qualities necessary for working well cross-culturally. Cross-cultural leadership qualities include relationship competencies, open mindedness, inquisitiveness and 'cross-cultural adventurousness.' If the leaders do not have these qualities, they should develop themselves through appropriate management development programs.

Conclusion

The paper discusses the role of strategic leadership in implementing SCM effectively from a focal firm's point of view. Fostering a supply chain oriented culture, determining the supply chain network structure, coordinating, supervising and leading the SCM business process, and implementing SCM practices are major roles of strategic leadership of the firm.

Strategic leader's vision plays a critical role in nurturing a supply chain oriented culture. Cultural changes must be prefaced by strong strategic leadership creating the pressure for change by setting examples. Unified effort of top management and leaders at multiple functions and levels of the organization hierarchy is critical in embedding and reinforcing supply chain oriented culture throughout the organization. Transformational leadership styles will help to foster a supply chain oriented culture with higher acceptance of the followers.

Strategic leadership should be proactive to realize and identify the complex nature of the company's network structures and identify those supply chain members that will enhance the ability of the firm to increase value and reduce costs associated with value delivery process. Decision on the selection of supply chain members with whom the firm links key processes should be weighed against firm capabilities, resources and the importance to firm, and value derived to the customer.

The number of business processes that is critical and or beneficial to integrate and manage between companies varies. Two of the most important processes are customer relationship management and supplier relationship management. The customer relationship management and supplier relationship management provide the linkages required to facilitate integration among the supply chain members to coordinate the other important processes. The major role of a strategic leader is to thoroughly analyze and discuss which key business processes to integrate and manage to meet the needs of his/her firm and the supply chain as a whole. The criteria that can be employed to evaluate the key business processes are: scope, intra- company connectedness, inter- company connectedness, and drivers of value generations

In implementing supply chain management practices strategic leaders must involve in coordination activities. Coordination within a supply chain is very important in responding to the problems that arise from the structural characteristics of the supply chain net work. Furthermore, strategic leaders must be cooperative with other members of the supply chain. Two types of cooperative behaviours are desirable behaviours and undesirable behaviours. Antecedents of desirable behaviours are trust, commitment, procedural fairness, group attachment, and identifying trade partners' priorities. The managerial inertia is the most vulnerable behaviour. Building long-term relationship is another important aspect of implementing SCM practice. Strategic leaders should know the range and type of relationship, as well as the reasons for the relationship formation in order to determine the best relationship to pursue with a particular member. Qualities of successful relationship building are trust, commitment, cultural similarity, and resource dependency and switching cost.

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